



**MKHONDO LOCAL MUNICIPALITY**  
(Registration number MP303)  
**AUDITED ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## General Information

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### Nature of business and principal activities

Operating as a Local Municipality

### Mayoral committee

#### Executive Mayor

Cllr. B.H. Mtshali

#### Speaker

Cllr. P.C. Langa

#### Chief Whip

Cllr. Z.E. Mthimkhulu

#### Member of Mayoral Committee - Finance and Corporate service

Cllr. N.C. Ndhlovu

#### Member of Mayoral Committee - Technical Services

Cllr. V.D. Nkosi

### Councillors

Cllr. D.M.Thwala  
Cllr. S.J. Methula  
Cllr. S.S. Mathebule  
Cllr. S.N. Kambule  
Cllr. C.G. Mtshali  
Cllr. T.E. Khumalo  
Cllr. B.J. Vilakazi  
Cllr. N.L. Nhlengethwa  
Cllr. S.C. Mtshali  
Cllr. A.T. Thwala  
Cllr. T.S. Nkosi  
Cllr. P.S. Nhlabathi ( Deceased)  
Cllr. S.P. Kunene  
Cllr. N.B. Masuku  
Cllr. M.D. Ntuli  
Cllr. L.V.A. Mkhwananzi  
Cllr. S.R. Sangweni  
Cllr. Z.J. Mnisi  
Cllr. K.D. Masondo  
Cllr. M.O. Nkosi  
Cllr. M.L. Yende  
Cllr. M.E. Phakathi  
Cllr. B.J Shabangu  
Cllr. C.F Bios  
Cllr. V.W. Masuku  
Cllr. J.L.I. Brussow  
Cllr. H.A. Mncube  
Cllr. T.G.F. Nhleko  
Cllr. B.T. Mabuza  
Cllr. G.T. Nkosi  
Cllr. J.M. Phakathi  
Cllr. L. Bosch  
Cllr. S.E. Nhleko

### Grading of local authority

Grade 3 Local Municipality

Category B Municipality as defined by the Municipal Structures Act no. 117 of 1998

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## General Information

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<b>Accounting Officer</b>	Mr M.J.S. Mabuza
<b>Chief Finance Officer (CFO)</b>	Mr T.S. Thobela
<b>Registered office</b>	Cnr Market & De Wet street Piet Retief 2380
<b>Business address</b>	Cnr Market & De Wet street Piet Retief 2380
<b>Postal address</b>	P.O. Box 23 Piet Retief 2380
<b>Bankers</b>	First National Bank A division of First Rand Limited
<b>Auditors</b>	Auditor General South Africa Registered Auditors
<b>Rounding</b>	All amounts have been rounded to the nearest R1.00
<b>Telephone number</b>	(017) 826 8100
<b>Fax Number</b>	(017) 826 3129
<b>Web address</b>	<a href="http://www.mkhondo.gov.za">www.mkhondo.gov.za</a>
<b>Email address</b>	<a href="mailto:sthobela@mkhondo.org.za">sthobela@mkhondo.org.za</a>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

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# Mkhondo Local Municipality

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME'S	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
MSIG	Municipal Systems Improvement Grant
FMG	Financial Management Grant
CMIP	Consolidated Municipal Infrastructure Program
CPI	Consumer Price Index
MLCCM	Municipal Landfill Closure Costing Model
LSA	Long Service Awards
DORA	Division of Revenue Act
NDPG	Neighbourhood Development Partnership Grant
NDP	Neighbourhood Development Program

# **Mkhondo Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Companies Act, 71 of 2008, to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the audited annual financial statements and was given unrestricted access to all financial records and related data.

The audited annual financial statements have been prepared in accordance with International Financial Reporting Standards (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The audited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Unaudited Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The audited annual financial statements set out on pages 6 to 106, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed by:

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**Mr M.J.S Mabuza**  
**Municipal Manager**  
**eMkhondo**

# **Mkhondo Local Municipality**

Audited Annual Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2015.

### **1. Review of activities**

#### **Main business and operations**

The municipality is a local municipality within South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached Unaudited Annual Financial Statements and do not in our opinion require any further comment.

### **2. Going concern**

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is not aware of any matters arising since the end of the financial period.

### **4. Accounting Officer's interest in contracts**

The accounting officer has no interests in contracts awarded.

### **5. Accounting policies**

The audited annual financial statements prepared in accordance with prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### **6. Non-current assets**

Refer to note 2 - 6 for changes to non-current assets.

### **7. Accounting Officer**

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr M.J.S Mabuza

### **8. Corporate governance**

#### **General**

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the MFMA(Municipal Finance Management Act, No.56 of 2003). The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

#### **Executive Mayor and Municipal Manager**

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Officer's Report

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### Audit committee

The Audit Committee members for the period under review were as follows:

Position	Name	Date appointed
Chairperson:	Adv. LT Nevondwe	01-05-2014
Members:	Mr. W.J. Khumalo	01-05-2014
	Ms. C.A. Nyembe	01-05-2014
	Mr. M.J. Potgieter	01-05-2014

In terms of Section 166 of the Municipal Finance Management Act(Act 56 of 2003), the municipality must appoint members of the Audit Committee.

### Internal audit

The municipality has a functional Internal Audit Unit. This is in compliance with the MFMA.

### 9. Bankers

The municipality mainly banks with First National Bank Limited a division of First Rand limited.

### 10. Auditors

Auditor General South Africa will continue in office for the next financial period.

### 11. Public Private Partnership

Mkhondo Local Municipality did not enter into any Public Private Partnership for the 2014/15 financial year, nor does it have any existing PPP's.



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	13	2,152,367	25,500,728
Consumer debtors	12	23,647,617	18,498,601
Inventories	8	11,006,615	5,194,856
Receivables from non-exchange transactions	10	740,067	-
Receivables from exchange transactions	9	2,794,521	2,167,707
VAT receivable	11	24,725,118	11,143,456
<b>Total current assets</b>		<b>65,066,305</b>	<b>62,505,348</b>
<b>Non-Current Assets</b>			
Biological assets	3	70,794,896	78,745,390
Investment property	4	18,309,600	18,949,100
Property, plant and equipment	5	1,232,071,183	1,204,542,365
Other financial assets	6	17,505,552	16,251,926
<b>Total Non-Current Assets</b>		<b>1,338,681,231</b>	<b>1,318,488,781</b>
<b>Total Assets</b>		<b>1,403,747,536</b>	<b>1,380,994,129</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits	19	3,150,537	3,054,632
Other financial liabilities	14	473,871	1,160,914
Provisions	16	261,709	242,944
Employee benefit obligation	7	1,110,707	1,296,969
Payables from exchange transactions	17	149,928,499	110,742,403
Unspent conditional grants and receipts	15	333,005	4,927,440
<b>Total current liabilities</b>		<b>155,258,328</b>	<b>121,425,302</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	14	1,335,680	1,868,643
Employee benefit obligation	7	20,131,232	17,910,457
Provisions	16	11,850,247	11,231,167
<b>Total Non-current Liabilities</b>		<b>33,317,159</b>	<b>31,010,267</b>
<b>Total Liabilities</b>		<b>188,575,487</b>	<b>152,435,569</b>
<b>Net Assets</b>		<b>1,215,172,049</b>	<b>1,228,558,560</b>
<b>Net Assets</b>			
Accumulated surplus		1,215,172,049	1,237,647,024
<b>Total Net Assets</b>		<b>1,215,172,049</b>	<b>1,237,647,024</b>

\* See Note

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance for the year ended 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	114,731,724	103,172,017
Agency services		9,177,261	7,589,135
Licences and permits		77,154	41,059
Rental income		968,442	528,131
Other income	25	18,697,207	13,270,075
Interest received		10,411,098	5,334,396
Gains on disposal of assets		1,073	761,179
Dividends received		77,790	-
<b>Total revenue from exchange transactions</b>		<b>154,141,749</b>	<b>130,695,992</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	31,383,161	20,107,868
<b>Transfer revenue</b>			
Government grants & subsidies	23	223,564,615	218,755,451
Public contributions and donations	24	5,045,182	-
Fines, Penalties and Forfeits		4,469,644	4,033,691
<b>Total revenue from non-exchange transactions</b>		<b>264,462,602</b>	<b>242,897,010</b>
<b>Total revenue</b>	20	<b>418,604,351</b>	<b>373,593,002</b>
<b>Expenditure</b>			
Employee related costs	27	112,532,492	97,576,210
Remuneration of councillors	28	12,840,288	12,104,386
Depreciation and amortisation	31	70,685,552	72,539,541
Impairment loss	32	2,963,139	3,345,047
Finance costs	33	7,528,066	4,067,686
Lease rentals on operating lease		1,677,268	810,724
Debt Impairment	29	25,074,935	19,646,494
Repairs and maintenance		31,409,333	33,379,895
Bulk purchases	36	82,865,518	86,151,135
Transfers and Subsidies	35	6,479,975	3,875,969
General Expenses	26	72,684,666	63,737,723
<b>Total expenditure</b>		<b>426,741,232</b>	<b>397,234,810</b>
<b>Operating deficit</b>		<b>(8,136,881)</b>	<b>(23,641,808)</b>
Fair value adjustments	30	(6,883,772)	22,516,974
Inventory gains	8	1,634,138	19,932
		<b>(5,249,634)</b>	<b>22,536,906</b>
<b>Deficit for the year</b>		<b>(13,386,515)</b>	<b>(1,104,902)</b>

\* See Note

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets for the year ended 30 June 2015

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,125,710,731	1,125,710,731
Adjustments		
Prior year adjustments	103,952,735	103,952,735
<b>Balance at 1 July 2013 as restated*</b>	<b>1,229,663,466</b>	<b>1,229,663,466</b>
Changes in net assets		
Surplus for the year	7,983,558	7,983,558
Total changes	7,983,558	7,983,558
Opening balance as previously reported	1,237,647,024	1,237,647,024
Adjustments		
Prior year adjustments	(9,088,460)	(9,088,460)
<b>Restated* Balance at 1 July 2014 as restated*</b>	<b>1,228,558,564</b>	<b>1,228,558,564</b>
Changes in net assets		
Deficit for the year	(13,386,515)	(13,386,515)
Total changes	(13,386,515)	(13,386,515)
<b>Balance at 30 June 2015</b>	<b>1,215,172,049</b>	<b>1,215,172,049</b>

\* See Note

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement for the year ended 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Taxation		31,154,815	19,951,676
Sale of goods and services		114,695,391	97,705,451
Grants		218,970,179	190,276,078
Interest income		1,343,117	2,514,374
Dividends received		77,790	-
		366,241,292	310,447,579
<b>Payments</b>			
Employee costs		(120,829,487)	(106,474,095)
Suppliers		(162,251,392)	(117,137,319)
Finance costs		(7,528,066)	(4,067,686)
		(290,608,945)	(227,679,100)
<b>Net cash flows from operating activities</b>	37	<b>75,632,347</b>	<b>82,768,479</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(97,579,865)	(98,092,348)
Proceeds from sale of property, plant and equipment	5	6,067	1,157,610
Proceeds from sale of financial assets		(186,904)	6,747,146
<b>Net cash flows from investing activities</b>		<b>(97,760,702)</b>	<b>(90,187,592)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(1,220,006)	(1,203,580)
<b>Net cash flows from financing activities</b>		<b>(1,220,006)</b>	<b>(1,203,580)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(23,348,361)</b>	<b>(8,622,693)</b>
Cash and cash equivalents at the beginning of the year		25,500,728	34,123,421
<b>Cash and cash equivalents at the end of the year</b>	13	<b>2,152,367</b>	<b>25,500,728</b>

\* See Note

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2015

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	126,790,000	(8,075,415)	<b>118,714,585</b>	114,731,724	<b>(3,982,861)</b>	Variance is (3.35%) which is not material
Agency services	8,631,000	(2,284,054)	<b>6,346,946</b>	9,177,261	<b>2,830,315</b>	Variance is 44.59%. Projected income from agency revenues were under budgeted.
Licences and permits	99,000	(53,630)	<b>45,370</b>	77,154	<b>31,784</b>	Variance is 70%. Projected licence and permits from business and hawkers were under budgeted.
Rental income	979,000	137,611	<b>1,116,611</b>	968,442	<b>(148,169)</b>	Variance is (13.27%). Projected rental income was over budgeted as some of the municipality properties did not levy rental charges as rental contracts were not in place
Other income - (rollup)	27,767,000	(2,945,600)	<b>24,821,400</b>	18,697,207	<b>(6,124,193)</b>	Variance is (24.67%). Projected income was over-budgeted on the assumption of increased tonnage of pine harvested

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Interest received - investment	11,800,000	(10,417,658)	<b>1,382,342</b>	10,411,098	<b>9,028,756</b>	Variance is 653.15%. The actual increase was from arrear accounts on consumer debtors which was under budgeted for.
Dividends received	-	-	-	77,790	<b>77,790</b>	Variance not material
<b>Total revenue from exchange transactions</b>	<b>176,066,000</b>	<b>(23,638,746)</b>	<b>152,427,254</b>	<b>154,140,676</b>	<b>1,713,422</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	29,672,000	8,405,314	<b>38,077,314</b>	31,383,161	<b>(6,694,153)</b>	Variance of (17.58%). Over budgeted. New property developments were envisaged.
<b>Transfer revenue</b>						
Government grants & subsidies	210,515,000	13,763,325	<b>224,278,325</b>	223,564,615	<b>(713,710)</b>	Variance of (0.32%). Conditional grants met the recognition criteria than budgeted
Public contributions and donations	-	-	-	5,045,182	<b>5,045,182</b>	Not budgeted for.
Fines, Penalties and Forfeits	1,310,000	(219,825)	<b>1,090,175</b>	4,469,644	<b>3,379,469</b>	Variance of 309.99%. The budget was based on the collections trend whilst the actuals were based on tickets issued
<b>Total revenue from non-exchange transactions</b>	<b>241,497,000</b>	<b>21,948,814</b>	<b>263,445,814</b>	<b>264,462,602</b>	<b>1,016,788</b>	
<b>Total revenue</b>	<b>417,563,000</b>	<b>(1,689,932)</b>	<b>415,873,068</b>	<b>418,603,278</b>	<b>2,730,210</b>	

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Expenditure</b>						
Personnel	(99,805,000)	4,019,543	<b>(95,785,457)</b>	(112,532,492)	<b>(16,747,035)</b>	Variance of 17.48%. Movements in provisions like leave pay, Long service awards and post employment medical benefits were not considered during the budgeting processf
Remuneration of councillors	(9,900,000)	(826,290)	<b>(10,726,290)</b>	(12,840,288)	<b>(2,113,998)</b>	Variance of 19.71%. Councillors remuneration under budgeted for.
Depreciation and amortisation	(73,058,000)	292	<b>(73,057,708)</b>	(70,685,552)	<b>2,372,156</b>	Variance of - 3.25%. Variance not material (below 10%)
Impairment loss/ Reversal of impairments	-	-	-	(2,963,139)	<b>(2,963,139)</b>	Traffic fines impairment not budgeted for.
Finance costs	(929,000)	200,356	<b>(728,644)</b>	(7,528,066)	<b>(6,799,422)</b>	Variance of 933.16%. Interest on supplier accounts not budget for
Lease rentals on operating lease	-	-	-	(1,677,268)	<b>(1,677,268)</b>	Was budgeted for under general expenses.
Bad debts written off	(16,358,613)	-	<b>(16,358,613)</b>	(25,074,935)	<b>(8,716,322)</b>	Variance of 53.28%. Increase in consumer debtors imaped not budgeted for.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Repairs and maintenance	(26,432,000)	8,237,054	<b>(18,194,946)</b>	(31,409,333)	<b>(13,214,387)</b>	Variance of 72.63%. Over budget due to motor vehicle repairs which was initially budgeted for under general expenses.
Bulk purchases	(80,924,000)	(1,449,864)	<b>(82,373,864)</b>	(82,865,518)	<b>(491,654)</b>	Variance of 0.60%. Variance immaterial
Transfers and Subsidies	(12,872,024)	-	<b>(12,872,024)</b>	(6,479,975)	<b>6,392,049</b>	Variance of -49.66%. Over budgeted for.
General Expenses	(95,358,000)	1,501,835	<b>(93,856,165)</b>	(72,684,666)	<b>21,171,499</b>	Variance of -22.56%. Under spending on votes due to budgetary monitoring by departments
<b>Total expenditure</b>	<b>(415,636,637)</b>	<b>11,682,926</b>	<b>(403,953,711)</b>	<b>(426,741,232)</b>	<b>(22,787,521)</b>	
<b>Operating deficit</b>	<b>1,926,363</b>	<b>9,992,994</b>	<b>11,919,357</b>	<b>(8,137,954)</b>	<b>(20,057,311)</b>	
Gain on disposal of assets and liabilities	2,810,000	(2,738,000)	<b>72,000</b>	1,073	<b>(70,927)</b>	No assets disposed of during the year
Fair value adjustments	-	-	-	(6,883,772)	<b>(6,883,772)</b>	Fair value adjustment on biological assets which was not budgeted for.
Inventories losses/write-downs	-	-	-	1,634,138	<b>1,634,138</b>	Gain on inventory which was not budgeted for
	<b>2,810,000</b>	<b>(2,738,000)</b>	<b>72,000</b>	<b>(5,248,561)</b>	<b>(5,320,561)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>4,736,363</b>	<b>7,254,994</b>	<b>11,991,357</b>	<b>(13,386,515)</b>	<b>(25,377,872)</b>	



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	4,139,000	4,543,000	<b>8,682,000</b>	11,006,615	<b>2,324,615</b>	Variance of 26.78%. More stocks were held at year end than budgeted for.
Receivables from exchange transactions	3,916,000	-	<b>3,916,000</b>	2,794,521	<b>(1,121,479)</b>	Variance of 28.64%. Sharp increase in the collection of receivables
Receivables from non-exchange transactions	-	-	-	740,067	<b>740,067</b>	Not budgeted for.
VAT receivable	-	-	-	24,725,118	<b>24,725,118</b>	Not budgeted for. The current year refunds were only paid after year end and about R7 million of the refund from the previous year is yet to be paid by SARS.
Consumer debtors	122,016,000	25,006,922	<b>147,022,922</b>	23,647,617	<b>(123,375,305)</b>	Variance of 83.92%. The amount disclosed as per the budget was a gross amount, no provision for doubtful debts was taken into account
Cash and cash equivalents	60,074,000	(22,711,566)	<b>37,362,434</b>	2,152,367	<b>(35,210,067)</b>	Variance of 94.24%. More commitments were paid than projected at year end.
	<b>190,145,000</b>	<b>6,838,356</b>	<b>196,983,356</b>	<b>65,066,305</b>	<b>(131,917,051)</b>	
<b>Non-Current Assets</b>						
Biological assets	62,212,000	16,533,518	<b>78,745,518</b>	70,794,896	<b>(7,950,622)</b>	Variance of 10%. The decrease was due to non replanting of harvested trees

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Investment property	20,004,000	(1,055,092)	<b>18,948,908</b>	18,309,600	<b>(639,308)</b>	Variance of 3.37%. Variance not material (below 10%)
Property, plant and equipment	1,298,289,000	(164,468,453)	<b>1,133,820,547</b>	1,232,071,183	<b>98,250,636</b>	Variance of 8.67%. Variance due to more projects undertaken during the year under review.
Other financial assets	18,361,000	(2,140,804)	<b>16,220,196</b>	17,505,552	<b>1,285,356</b>	Variance of 7.92%. The growth is due to fair value adjustments which were not factored in the projections.
	<b>1,398,866,000</b>	<b>(151,130,831)</b>	<b>1,247,735,169</b>	<b>1,338,681,231</b>	<b>90,946,062</b>	
<b>Total Assets</b>	<b>1,589,011,000</b>	<b>(144,292,475)</b>	<b>1,444,718,525</b>	<b>1,403,747,536</b>	<b>(40,970,989)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	-	-	-	473,871	<b>473,871</b>	No budgeted figure for the short term portion
Payables from exchange transactions	42,445,000	57,433,378	<b>99,878,378</b>	149,928,499	<b>50,050,121</b>	Variance of 51.21%. Cash flow problems resulting in the increase of payables.
Consumer deposits	3,713,000	(603,098)	<b>3,109,902</b>	3,150,537	<b>40,635</b>	Variance of 1.31%. The actuals are in line with the budget.
Employee benefit obligation	-	-	-	1,110,707	<b>1,110,707</b>	Not budgeted for.
Unspent conditional grants and receipts	-	-	-	333,005	<b>333,005</b>	Not budgeted for in the current year
Provisions	6,149,000	878,558	<b>7,027,558</b>	261,709	<b>(6,765,849)</b>	Variance of 96.28%. The variance is due to classification between long term and short term provisions.
	<b>52,307,000</b>	<b>57,708,838</b>	<b>110,015,838</b>	<b>155,258,328</b>	<b>45,242,490</b>	

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Non-Current Liabilities</b>						
Other financial liabilities	-	2,370,571	<b>2,370,571</b>	1,335,680	<b>(1,034,891)</b>	Variance of 43.66%. Payments to DBSA were made during the year
Employee benefit obligation	-	-	-	20,131,232	<b>20,131,232</b>	No budget was made during the year.
Provisions	37,979,000	(26,747,801)	<b>11,231,199</b>	11,850,247	<b>619,048</b>	Variance of 5.51%. Budget in line with actuals.
	<b>37,979,000</b>	<b>(24,377,230)</b>	<b>13,601,770</b>	<b>33,317,159</b>	<b>19,715,389</b>	
<b>Total Liabilities</b>	<b>90,286,000</b>	<b>33,331,608</b>	<b>123,617,608</b>	<b>188,575,487</b>	<b>64,957,879</b>	
<b>Net Assets</b>	<b>1,498,725,000</b>	<b>(177,624,083)</b>	<b>1,321,100,917</b>	<b>1,215,172,049</b>	<b>(105,928,868)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,498,725,000	(177,624,083)	<b>1,321,100,917</b>	1,215,172,049	<b>(105,928,868)</b>	Variance of 7.9%. This is due to decrease in assets and increase in payables.
<b>Total Net Assets</b>	<b>1,498,725,000</b>	<b>(177,624,083)</b>	<b>1,321,100,917</b>	<b>1,215,172,049</b>	<b>(105,928,868)</b>	

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation	21,957,393	3,173,427	<b>25,130,820</b>	31,154,815	<b>6,023,995</b>	Variance of 23.97%. Due to under collection of billed amount i.e. consumers not honouring the property rates accounts
Sale of goods and services	93,824,698	(15,473,458)	<b>78,351,240</b>	114,695,391	<b>36,344,151</b>	Variance of 46.39%. Due to under collection of billed amount i.e. consumers not honouring the electricity, water, sanitation and refuse accounts
Grants	210,516,000	13,762,325	<b>224,278,325</b>	218,970,179	<b>(5,308,146)</b>	Variance of 2.37%. Variance immaterial.
Interest income	2,800,000	2,776,960	<b>5,576,960</b>	1,343,117	<b>(4,233,843)</b>	Variance of 75.92%. Collections on interest paid over budgeted.
Dividends received	-	-	-	77,790	<b>77,790</b>	Not budgeted for.
Other receipts	38,459,294	(5,584,294)	<b>32,875,000</b>	-	<b>(32,875,000)</b>	Wrong budgeting.
	<b>367,557,385</b>	<b>(1,345,040)</b>	<b>366,212,345</b>	<b>366,241,292</b>	<b>28,947</b>	

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Payments</b>						
Employee costs	(109,704,547)	7,982,507	<b>(101,722,040)</b>	(120,829,487)	<b>(19,107,447)</b>	Variance of 18.78%. Under budgeted for.
Suppliers	(210,596,542)	3,299,543	<b>(207,296,999)</b>	(162,251,392)	<b>45,045,607</b>	Variance of 21.73%. Under spending on votes due to budgetary monitoring by Departments
Finance costs	(929,280)	200,636	<b>(728,644)</b>	(7,528,066)	<b>(6,799,422)</b>	Variance of 933.16%. Interest charges from suppliers not budgeted for.
	<b>(321,230,369)</b>	<b>11,482,686</b>	<b>(309,747,683)</b>	<b>(290,608,945)</b>	<b>19,138,738</b>	
<b>Net cash flows from operating activities</b>	<b>46,327,016</b>	<b>10,137,646</b>	<b>56,464,662</b>	<b>75,632,347</b>	<b>19,167,685</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(88,622,000)	(15,513,000)	<b>(104,135,000)</b>	(97,579,865)	<b>6,555,135</b>	Variance of 6.29%. Variance immaterial
Proceeds from sale of property, plant and equipment	2,810,000	(2,738,000)	<b>72,000</b>	6,067	<b>(65,933)</b>	Variance of 91.57%. Over budgeted for.
Proceeds/ (Purchase) of other financial assets	-	-	-	(186,904)	<b>(186,904)</b>	Not budgeted for.
<b>Net cash flows from investing activities</b>	<b>(85,812,000)</b>	<b>(18,251,000)</b>	<b>(104,063,000)</b>	<b>(97,760,702)</b>	<b>6,302,298</b>	
<b>Cash flows from financing activities</b>						
Repayment of other financial liabilities	-	(500,000)	<b>(500,000)</b>	(1,220,006)	<b>(720,006)</b>	Variance of 244%. Under budgeted for.
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>(500,000)</b>	<b>(500,000)</b>	<b>(1,220,006)</b>	<b>(720,006)</b>	
Net increase/(decrease) in cash and cash equivalents	(39,484,984)	(8,613,354)	<b>(48,098,338)</b>	(23,348,361)	<b>24,749,977</b>	Wrong allocation of budget
Cash and cash equivalents at the beginning of the year	37,363,000	-	<b>37,363,000</b>	25,500,728	<b>(11,862,272)</b>	Wrong allocation of budget
<b>Cash and cash equivalents at the end of the year</b>	<b>(2,121,984)</b>	<b>(8,613,354)</b>	<b>(10,735,338)</b>	<b>2,152,367</b>	<b>12,887,705</b>	

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1. Presentation of Audited Annual Financial Statements

The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Companies Act, 71 of 2008.

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these audited annual financial statements, are disclosed below:

These accounting policies are consistent with the previous year..

#### 1.1 Going concern assumption

These audited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the audited annual financial statements. Significant judgements include:

##### **Trade receivables / Held to maturity investments and/or loans and receivables / Consumer debtors**

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit. The management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Fair value estimation

The fair value estimation in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a GRAP Standard or where offsetting reflects the substance of the transaction or other event.

### 1.3 Biological assets

The entity recognises a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the plantations is based on the combined fair value of the land and the trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Item	Useful life
Trees in a plantation forest	Indefinite

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.4 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	2 - 50 years
Plant and machinery	2 - 15 years
Furniture and fixtures	2 - 10 years
Transport assets	3- 15 years
Electricity Equipment	30 - 45 years
Electricity Cables	50 years
Electricity poles	30 years
Roads	10 - 50 years
Road furniture	7 - 50 years
Street lights	25 years
Sewer Equipment	10 - 50 years
Sewer and manholes	60-80 years
Storm waters	20 - 50 years
Water and equipment	8 - 75 years
Water reticulation	40 - 50 years
Furniture and office equipment	2 - 10 years
Other machinery and equipment	2 - 15 years
Infrastructure assets	5 years
Work in progress	Not depreciated

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of them ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

# Mkhondo Local Municipality

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## Accounting Policies for the year ended 30 June 2015

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### 1.6 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Mkhondo Local Municipality

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## Accounting Policies for the year ended 30 June 2015

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### 1.6 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Fixed Deposit	Financial asset measured at fair value
Collective Investment Scheme	Financial asset measured at fair value
Listed Equity	Financial asset measured at fair value
Revenue from exchange transactions	Financial asset measured at amortised cost
Revenue from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Financial Liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using amortised cost model.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its cost value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at cost.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Mkhondo Local Municipality

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# **Mkhondo Local Municipality**

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## **Accounting Policies for the year ended 30 June 2015**

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### **1.6 Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.8 Inventories (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# Mkhondo Local Municipality

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## Accounting Policies for the year ended 30 June 2015

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### 1.9 Impairment of cash-generating assets (continued)

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Discount rate

The discount rate is a rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# Mkhondo Local Municipality

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### 1.9 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Mkhondo Local Municipality

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### 1.9 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

# Mkhondo Local Municipality

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## Accounting Policies for the year ended 30 June 2015

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### 1.10 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

# Mkhondo Local Municipality

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## Accounting Policies for the year ended 30 June 2015

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### 1.11 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP 20 on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.11 Employee benefits (continued)

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.11 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.11 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the audited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.11 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and;
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.14 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.14 Revenue from non-exchange transactions (continued)

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### **Services in-kind**

Services in-kind are not recognised.

#### **Property rates**

Revenue from property rates is calculated from the date when the legal entitlement to this revenue arises and is recognised when invoiced. Collection charges are recognised when such amounts are legally enforceable and invoiced. Penalty interest on unpaid rates is recognised on a time proportion basis. A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognised net of revenue.

#### **Government Grants**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

### 1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.21 Use of estimates

The preparation of audited annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the audited annual financial statements are disclosed in the relevant sections of the audited annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.22 Presentation currency

These audited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.23 Grants-in-aid

Mkhondo local municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, Mkhondo local municipality does not:

- receive any goods or services directly in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period during which the events giving rise to the transfer occurred.

### 1.24 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the Statement of Financial Position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.25 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements. Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

### 1.26 Value-Added Tax

Mkhondo local municipality accounts for value-added tax (VAT) on the payment basis.

### 1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies for the year ended 30 June 2015

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### 1.27 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2014 to 30/06/2015.

The budget for the economic entity includes all the entities approved budgets under its control.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

## 2. New standards and interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	1 April 2016	No impact expected
• GRAP32: Service Concession Arrangements: Grantor	1 April 2016	No impact expected
• GRAP108: Statutory Receivables	1 April 2016	No impact expected

The aggregate impact of the initial application of the statements and interpretations on the municipality's audited annual financial statements is expected to be as follows:

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

**Figures in Rand** **2015** **2014**

### 3. Biological assets

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Fair Value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Fair Value
Trees in a plantation forest	70,794,896	-	70,794,896	78,745,390	-	78,745,390
<b>Total</b>	<b>70,794,896</b>	<b>-</b>	<b>70,794,896</b>	<b>78,745,390</b>	<b>-</b>	<b>78,745,390</b>

#### Reconciliation of biological assets - 2015

	Opening balance	Loss arising from changes in fair value	Total
Trees in a plantation forest	78,745,390	(7,950,494)	70,794,896
	<b>78,745,390</b>	<b>(7,950,494)</b>	<b>70,794,896</b>

#### Reconciliation of biological assets - 2014

	Opening balance	Gain arising from changes in fair value	Total
Trees in a plantation forest	58,912,732	19,832,658	78,745,390
	<b>58,912,732</b>	<b>19,832,658</b>	<b>78,745,390</b>

#### Non - Financial information

##### Quantities of each consumable biological asset

Trees in a plantation forest	70,794,896	78,745,390
	<b>70,794,896</b>	<b>78,745,390</b>

Total population of plantation area:

- Wattle: 19%	(503.5ha)
- Gum: 41%	(1098.6ha)
- Pine: 40%	(1046.5ha)

Next fair valuation on the plantation will be due the 30 June 2016.

#### Mature biological assets

Trees in a plantation forest	70,794,896	78,745,390
	<b>70,794,896</b>	<b>78,745,390</b>

#### Commitments

The municipality does not have any commitment relating to the development or future acquisitions of biological assets.

#### Pledged and restriction

No biological assets were pledged as security. Further more no title has been restricted which will affect the carrying amount.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

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### 3. Biological assets (continued)

#### Restrictions imposed by regulations

No restrictions imposed by regulations on the capacity to sell biological assets for the year under review.

#### Other information

#### Methods and assumptions used in determining fair value

Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. Historical sales volumes of the Mkhondo area, as well as FES data for 2014 and 2015 were used to determine MAI (gum:15 tons/ha/year, Pine: 12 tons/ha/year, Wattle: 10 tons/ha/year).

Furthermore the municipality used a expert to calculate the fair value of biological assets as at 30 June 2015.

#### Financial risk strategy

The entity is exposed to financial risks arising from changes in market prices for timber. The entity does not anticipate that timber prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

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## 4. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	32,464,300	(14,154,700)	18,309,600	32,464,300	(13,515,200)	18,949,100
<b>Total</b>	<b>32,464,300</b>	<b>(14,154,700)</b>	<b>18,309,600</b>	<b>32,464,300</b>	<b>(13,515,200)</b>	<b>18,949,100</b>

### Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	18,949,100	(639,500)	18,309,600
	<b>18,949,100</b>	<b>(639,500)</b>	<b>18,309,600</b>

### Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	19,588,600	(639,500)	18,949,100
	<b>19,588,600</b>	<b>(639,500)</b>	<b>18,949,100</b>

### Additional disclosure relating to Investment property

Investment property Type	2015	2014
- Agricultural	650,000	650,000
- Business	20,288,060	20,288,060
- Residential	11,366,240	11,366,240
- Vacant land	160,000	160,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand

## 5. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	41,050,371	-	41,050,371	41,050,371	-	41,050,371
Buildings	31,921,152	(12,604,356)	19,316,796	31,921,152	(11,950,572)	19,970,580
Infrastructure	2,093,260,556	(1,059,135,548)	1,034,125,008	2,036,545,936	(995,713,420)	1,040,832,516
Community	34,430,198	(8,795,039)	25,635,159	17,097,890	(8,513,003)	8,584,887
Other property, plant and equipment	50,082,070	(34,810,320)	15,271,750	46,308,555	(29,123,421)	17,185,134
Work in progress	96,672,099	-	96,672,099	76,918,877	-	76,918,877
<b>Total</b>	<b>2,347,416,446</b>	<b>(1,115,345,263)</b>	<b>1,232,071,183</b>	<b>2,249,842,781</b>	<b>(1,045,300,416)</b>	<b>1,204,542,365</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand

## 5. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	41,050,371	-	-	-	-	41,050,371
Buildings	19,970,580	-	-	-	(653,784)	19,316,796
Infrastructure	1,040,832,516	5,045,182	-	51,669,438	(63,422,128)	1,034,125,008
Community	8,584,887	-	-	17,332,308	(282,036)	25,635,159
Other property, plant and equipment	17,185,134	3,779,715	(4,995)	-	(5,688,104)	15,271,750
Work in progress	76,918,877	88,754,968	-	(69,001,746)	-	96,672,099
	<b>1,204,542,365</b>	<b>97,579,865</b>	<b>(4,995)</b>	<b>-</b>	<b>(70,046,052)</b>	<b>1,232,071,183</b>

### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	41,050,371	-	-	-	-	-	41,050,371
Buildings	20,624,364	-	-	-	-	(653,784)	19,970,580
Infrastructure	1,052,664,389	-	-	53,344,575	-	(65,176,448)	1,040,832,516
Community	7,419,200	-	-	1,433,390	-	(267,703)	8,584,887
Other property, plant and equipment	20,804,532	2,579,141	(396,431)	-	-	(5,802,108)	17,185,134
Work in progress	45,317,973	95,513,207	-	(54,777,965)	(9,134,338)	-	76,918,877
	<b>1,187,880,829</b>	<b>98,092,348</b>	<b>(396,431)</b>	<b>-</b>	<b>(9,134,338)</b>	<b>(71,900,043)</b>	<b>1,204,542,365</b>

### Pledged as security

The Municipality does not have any assets pledged as collateral.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 5. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	76,918,877	76,918,877
Additions/capital expenditure	89,424,543	89,424,543
Transferred to completed items	(69,671,322)	(69,671,322)
	<b>96,672,098</b>	<b>96,672,098</b>

#### Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Opening balance	45,317,973	45,317,973
Additions/capital expenditure	95,513,207	95,513,207
Other movements [specify]	(9,134,338)	(9,134,338)
Transferred to completed items	(54,777,965)	(54,777,965)
	<b>76,918,877</b>	<b>76,918,877</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



# Mkhondo Local Municipality

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## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>6. Other financial assets</b>		
<b>At Fair Value and Profit and Loss</b>		
Sanlam Ltd	2,456,968	2,286,973
The following ordinary shares were acquired on the 23 March 2001:		
Account Number: Number of shares		
C0000164698 319		
C0000612270 36418		
C0000141498 299		
<b>Total 37036</b>		
<b>Closing share price R66.34</b>		
Listed Shares - Old Mutual: 13093141	14,124,501	13,105,251
This is an Old Mutual Wealth Life wrapped Investment account. Commencement date is 25 June 2002 with an initial amount of R3 539 867.76.		
Fixed Deposit - ABSA: 5008322939	7,010	6,595
This is a fixed term investment account. The investment is with effect from 24 September 1993 on a three month reinvestment period. Interest rate is 5% per annum.		
Fixed Deposit - ABSA: 2056165426	26,509	25,135
This is a fixed term investment account effective from 09 March 2004 on a three month reinvestment period. Interest rate is 4.74% per annum.		
Old Mutual Ltd	890,564	827,972
The following ordinary shares were acquired on 23 February 2003:		
Account Number: Number of shares		
U0777133016 11025		
U0777133059 11987		
<b>Total 23012</b>		
<b>Closing share price R38.70</b>		
	<b>17,505,552</b>	<b>16,251,926</b>
<b>Total other financial assets</b>	<b>17,505,552</b>	<b>16,251,926</b>
<b>Non-current assets</b>		
Designated at held for trading and available for sale	17,505,552	16,251,926
	<b>17,505,552</b>	<b>16,251,926</b>

### Financial assets pledged as collateral

There are no financial assets pledged as collateral

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 7. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

#### Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

**Contributions-based Liability:** This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

**Benefits-based Liability:** This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

**Cross-subsidy Liability:** This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

**Past-service and future-service liability:** Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called **Death-in-service Liability** would be regarded as a post-employment liability under the requirements of GRAP 25.

**Accrued Liability:** In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

**Cross-subsidy Liability:** The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

**Unfunded Accrued Liability:** This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

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### 7. Employee benefit obligations (continued)

#### Sensitivity Analysis

##### 7.1 Introduction

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

##### 7.2 Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

**Table 7.1 summarises the results of the sensitivity analysis.**

**Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)**

Assumption	Change	In-service	Continuation	Total	%Change
Central Assumptions	-	3.437	10.422	13.859	
Health care inflation	+1%	4.177	11.436	15.613	13%
	-1%	2.835	9.539	12.373	-11%
Discount Rate	+1%	2.825	9.552	12.377	-11%
	-1%	4.220	11.437	15.658	13%
Post-retirement mortality	-1 yr	3.572	10.870	14.442	4%
Average retirement age	-1 yr	3.766	10.422	14.189	2%
Continuation of membership at retirement	-10%	2.455	10.422	12.877	-7%

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 13% higher than that shown.

**Table 7.2 summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2015.**

Assumption	Change	Current-service Cost	Interest Cost	Total
% change				
Central Assumptions		137,900	915,200	1,053,100
Health care inflation	+1%	166,800	1,042,500	1,209,300
15%	-1%	114,400	807,500	921,900
-12%				
Post-retirement mortality	-1 yr	143,400	953,100	1,096,500
4%				
Average retirement age	-1 yr	151,300	941,800	1,093,100
4%				
Withdrawal Rate	-50%	147,100	930,600	1,077,700
2%				

These figures were derived at the last valuation and were also presented in that report.

**Table 7.3 summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2015.**

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

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### 7. Employee benefit obligations (continued)

**Table 7.3: Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2015**

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central Assumptions		151,500	1,075,400	1,226,900	
Health care inflation	+1%	182,300	1,217,100	1,399,400	14%
	-1%	125,200	953,400	1,078,600	-12%
Discount rate	+1%	125,300	1,062,600	1,187,900	-3%
	-1%	185,000	1,083,400	1,268,400	3%
Post-retirement mortality	-1 yr	157,500	1,123,000	1,280,500	4%
Average retirement age	-1 yr	162,800	1,104,500	1,267,300	3%
Continuation of membership at retirement	-10%	102,500	972,900	1,075,400	-12%

### Long service awards

#### Introduction

In estimating the unfunded liability for LSA of Mkhondo Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

#### Financial Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used.

Consequently, a discount rate of 8.23% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.45%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2015.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.20% was obtained from the differential between market yields on index-linked bonds (1.45%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.23%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.23\%-0.50\%)/(1+1.45\%))-1$ .

Thus, a general salary inflation rate of 7.20% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.97%.

It has been assumed that the next salary increase will take place on 1 July 2016.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>7. Employee benefit obligations (continued)</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-Post Employment Medical Benefit-wholly unfunded	(13,859,200)	(12,761,599)
Present value of the long service awards- wholly unfunded	(7,382,739)	(6,445,827)
	<b>(21,241,939)</b>	<b>(19,207,426)</b>
Non-current liabilities	(20,131,232)	(17,910,457)
Current liabilities	(1,110,707)	(1,296,969)
	<b>(21,241,939)</b>	<b>(19,207,426)</b>
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening balance	19,207,426	16,705,268
Net expense recognised in the statement of financial performance	2,034,513	2,502,158
	<b>21,241,939</b>	<b>19,207,426</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	835,281	688,468
Interest cost	1,575,494	1,292,396
Actuarial losses	920,707	1,470,299
Expected return on plan assets	(1,296,969)	(949,005)
	<b>2,034,513</b>	<b>2,502,158</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
7. Employee benefit obligations (continued)		
Key assumptions used		
Assumptions used at the reporting date:		
Long Service awards - Discount rate	8.23 %	8.12 %
Long Service awards - General Salary Inflation	7.20 %	7.22 %
Long Service Awards - Net effective discount rate	0.97 %	0.84 %
Post retirement medical benefit plan - Discount rate	8.69 %	8.66 %
Post retirement medical benefit paln - Health care cost inflation rate	7.81 %	7.94 %
Post retirement benefit medical plan - Net effective discount rate	0.82 %	0.67 %
Key Demographic Assumptions		
Long service award		
Assumption	2015	Value 2014
Average retirement age	65	65
Mortality during employment	SA 85-90	SA 85-90
Withdrawal from service (sample annual rates)	Age	Females Males
	20	24% 16%
	30	15% 10%
	40	6% 6%
	50	2% 2%
	>55	0% 0%
Post retirement benefit plan		
Assumption	Value	
Average retirement age	65	
Pre-retirement mortality	SA85-90	
Proportion of married at retirement	90%	
Continuation of membership at retirement	90%	
Proportion of eligible non-members joining the scheme by retirement	20%	
Post Employment Medical Benefits		
The amounts recognised in the statement of financial position are as follows:		
Present value of defined benefit obligation - wholly funded	(13,859,200)	(12,761,599)
Non current liabilities	(13,100,236)	(12,054,139)
Current liabilities	(758,964)	(707,460)
	(13,859,200)	(12,761,599)
Net expense recognised in the statement of financial performance		
Current service cost	151,490	137,940
Interest cost	1,075,414	915,219
Actuarial losses	578,157	801,704
Expected Employer Benefit payments	(707,460)	(544,716)
	1,097,601	1,310,147

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>7. Employee benefit obligations (continued)</b>		
<b>Long Service Awards</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
Present value of defined benefit obligation - wholly funded	(7,382,739)	(6,445,827)
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	683,791	550,528
Interest expense	500,080	377,177
Actuarial losses	342,550	668,595
Expected Employer Benefit Vestings	(589,509)	(404,289)
	<b>936,912</b>	<b>1,192,011</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>8. Inventories</b>		
Consumable stores	10,878,928	5,064,853
Water	127,687	130,003
	<b>11,006,615</b>	<b>5,194,856</b>

Carrying value of inventories carried at fair value less costs to sell	11,006,615	5,194,856
Inventories losses/write offs recognised during the year	(2,316)	(19,114)

A net inventory gain of R1,634,138 (prior R19,932) was realised. There was an inventory gain in consumable stores of R1,636,454 (Prior: R39,046) and a loss of R2,316 (prior: R19,114) in water inventory.

## 9. Receivables from exchange transactions

Deposits	93,298	-
Sundry Debtors	2,701,223	2,167,707
	<b>2,794,521</b>	<b>2,167,707</b>

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Trade receivables

##### Counterparties with external credit rating (Moody's)

Baa2	2,794,521	2,167,707
	<b>2,794,521</b>	<b>2,167,707</b>

### Fair value of trade and other receivables

Trade and other receivables	2,794,521	2,167,707
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### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2015, R 2,973,681 (2014: R 2142717-) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	2,794,521	2,167,707
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## 10. Receivables from non-exchange transactions

Fines	740,067	-
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### Receivables from non-exchange transactions impaired

As of 30 June 2015, other receivables from non-exchange transactions of R 6,308,186 (2014: R 3,345,046) were impaired and provided for.

The amount of the provision was R 2,963,138 as of 30 June 2015 (2014: R 3,345,046).

Details of the impairment:

Traffic fines	(6,308,186)	(3,345,046)
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# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 10. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(3,345,046)	-
Provision for impairment	(2,963,138)	(3,345,046)
	<b>(6,308,184)</b>	<b>(3,345,046)</b>

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit .

### 11. VAT receivable

SARS - VAT	24,725,118	11,143,456
	<b>24,725,118</b>	<b>11,143,456</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>12. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	39,362,276	30,026,204
Electricity	25,988,581	22,918,893
Water	22,774,397	19,006,292
Sewerage	16,982,615	14,793,921
Refuse	26,934,101	23,093,692
Other	30,744,640	22,723,655
	<b>162,786,610</b>	<b>132,562,657</b>
<b>Less: Allowance for impairment</b>		
Rates	(33,805,444)	(26,330,026)
Electricity	(18,340,369)	(16,600,118)
Water	(20,105,840)	(17,208,759)
Sewerage	(15,227,641)	(13,631,402)
Refuse	(25,116,788)	(21,490,543)
Other	(26,542,911)	(18,803,208)
	<b>(139,138,993)</b>	<b>(114,064,056)</b>
<b>Net balance</b>		
Rates	5,556,832	3,696,178
Electricity	7,648,212	6,318,775
Water	2,668,557	1,797,533
Sewerage	1,754,974	1,162,519
Refuse	1,817,313	1,603,149
Other	4,201,729	3,920,447
	<b>23,647,617</b>	<b>18,498,601</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	7,648,212	6,318,775
Water	2,668,557	1,797,533
Sewerage	1,754,974	1,162,519
Refuse	1,817,314	1,603,149
Other not specified	4,201,730	3,920,447
	<b>18,090,787</b>	<b>14,802,423</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	5,556,832	3,696,178
	<b>5,556,832</b>	<b>3,696,178</b>
<b>Net balance</b>	<b>23,647,619</b>	<b>18,498,601</b>
<b>Rates</b>		
Current (0 -30 days)	1,250,547	1,735,650
31 - 60 days	888,985	1,113,152
61 - 90 days	490,063	847,376
Over 90 days	2,927,237	-
	<b>5,556,832</b>	<b>3,696,178</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>12. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	2,772,920	3,468,332
31 - 60 days	1,408,774	1,894,724
61 - 90 days	597,379	955,719
Over 90 days	2,869,139	-
	<b>7,648,212</b>	<b>6,318,775</b>
<b>Water</b>		
Current (0 -30 days)	446,276	740,635
31 - 60 days	294,835	657,965
61 - 90 days	247,220	398,933
Over 90 days	1,680,226	-
	<b>2,668,557</b>	<b>1,797,533</b>
<b>Sewerage</b>		
Current (0 -30 days)	263,082	490,316
31 - 60 days	221,074	357,033
61 - 90 days	135,185	315,170
Over 90 days	1,135,633	-
	<b>1,754,974</b>	<b>1,162,519</b>
<b>Refuse</b>		
Current (0 -30 days)	171,856	600,570
31 - 60 days	136,212	521,915
61 - 90 days	97,936	480,664
Over 90 days	1,411,309	-
	<b>1,817,313</b>	<b>1,603,149</b>
<b>Other</b>		
Current (0 -30 days)	895,228	1,582,482
31 - 60 days	523,553	1,243,071
61 - 90 days	315,335	1,094,894
Over 90 days	2,467,613	-
	<b>4,201,729</b>	<b>3,920,447</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(114,064,056)	(94,417,562)
Contributions to allowance	(25,074,937)	(19,646,494)
	<b>(139,138,993)</b>	<b>(114,064,056)</b>
<b>Fair value of consumer debtors</b>		
Consumer debtors	23,647,619	18,498,601
	<b>23,647,619</b>	<b>18,498,601</b>

### Consumer debtors impaired

As of 30 June 2015, consumer debtors of R 139,138,992 (2014: R 114,064,056) were impaired and provided for.

The amount of the provision was R 25,074,937 as of 30 June 2015 (2014: R 16,326,452).

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 12. Consumer debtors (continued)

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	23,647,619	18,498,601
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### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8,171	8,171
Bank balances	1,807,729	3,002,081
Short-term deposits	336,467	22,490,476
Bank overdraft	-	-
	<b>2,152,367</b>	<b>25,500,728</b>

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

### Credit rating

Baa2/P-2	1,285,951	25,549,674
	<b>1,285,951</b>	<b>25,549,674</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
First National Bank - Cheque Account - 62013126356	939,146	3,017,479	1,137,709	1,797,391	2,960,363	1,137,794
First National Bank - Money Market - 62254274732	119,078	3,389,281	1,908,105	119,078	3,389,281	1,908,105
First National Bank - Public sector - 62242238534	10,338	41,718	-	10,338	41,718	-
First National Bank - Corporate Fixed Maturity - 740280175876	-	17,461,237	29,771,388	-	17,461,237	29,771,388
First National Bank - Call Account - 62016967351	217,389	1,639,959	1,297,963	217,389	1,639,959	1,297,963
<b>Total</b>	<b>1,285,951</b>	<b>25,549,674</b>	<b>34,115,165</b>	<b>2,144,196</b>	<b>25,492,558</b>	<b>34,115,250</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>14. Other financial liabilities</b>		
<b>At amortised cost</b>		
DBSA Sewerage	-	139,013
The initial capital amount on this loan is R 2,344,630.83. This loan carries an interest rate of 10% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1994 and matures on 30th of September 2014. The Loan has since been fully repaid.		
DBSA Streets Ethanda	403,248	505,231
The initial capital amount on this loan is R 1,099,477.42. This loan carries an interest rate of 14% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1995 and matures on 30th of September 2015.		
DBSA Electricity Ethanda	356,946	1,011,420
The initial capital amount on this loan is R 4,162,979.77. This loan carries an interest rate of 12% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1995 and matures on 30th of September 2015.		
DBSA Electricity Ext 7 & 9	1,049,357	1,373,893
The initial capital amount on this loan is R 3,089,958.68. This loan carries an interest rate of 15% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1997 and matures on 30th of September 2017.		
	<b>1,809,551</b>	<b>3,029,557</b>
<b>Total other financial liabilities</b>	<b>1,809,551</b>	<b>3,029,557</b>
The municipality have not made any pledges against the above loans.		
<b>Non-current liabilities</b>		
At amortised cost	1,335,680	1,868,643
	<b>1,335,680</b>	<b>1,868,643</b>
<b>Current liabilities</b>		
At amortised cost	473,871	1,160,914
	<b>473,871</b>	<b>1,160,914</b>

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	-	3,611,324
Local government sector education and training authority	333,005	301,663
Integrated National Electrification Programme	-	1,006,570
Expanded Public Works Programme Incentive Grant	-	7,883
	<b>333,005</b>	<b>4,927,440</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	4,927,440	32,957,812
Additions during the period	91,657,114	79,920,000
Income recognition during the year	(96,251,549)	(107,950,372)
	<b>333,005</b>	<b>4,927,440</b>

The nature and extent of government grants recognised in the audited annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

.

See note 23 for reconciliation of grants from National/Provincial Government.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 16. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation provision	11,474,111	637,845	12,111,956
	<b>11,474,111</b>	<b>637,845</b>	<b>12,111,956</b>

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Environmental rehabilitation provision	9,697,021	1,777,090	11,474,111
	<b>9,697,021</b>	<b>1,777,090</b>	<b>11,474,111</b>
Non-current liabilities		11,850,247	11,231,167
Current liabilities		261,709	242,944
		<b>12,111,956</b>	<b>11,474,111</b>

#### Environmental rehabilitation provision

#### Financial assumptions used

#### Adjustment of unit costs

The baseline for the unit costs used in the MLCCM was set in 2011. Unit costs are adjusted annually at the beginning of the valuation season. For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the 3-month average of the CPI was used to adjust the unit cost for each cost element. The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering Earthworks index. In certain cases, a specific amendment to unit costs (different from the above two indices) is made based on newer information, new technology being used or changes in closure requirements. In 2015, such changes were made to the unit costs of:

- Licence for closure application
- Basic assessment
- End-use plan
- Geosynthetics alternative
- Gas drainage layer
- Additional Caping for impact
- Water monitoring

#### Civil Engineering Works

The price adjustments for 2015 based on the average index for January to March 2015 amounted to **3.6713%**

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 16. Provisions (continued)

#### CPI

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI was obtained from Statistics South Africa (Consumer price index, Table B1 (Statistics South Africa, Statistical release P0141)). The average of the CPI for January to March 2015 amounted to **4.1306%**.

#### Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used as published on the RSA Retail Savings Bond website [www.rsaretailbonds.gov.za](http://www.rsaretailbonds.gov.za). The rate most consistent with the remaining life of the landfill published on 30 June was used. In the case of this landfill the rate associated with the maximum available period of 10 years was used, i.e. 2.25% above CPI.

### 17. Payables from exchange transactions

13th Cheque accrual	3,192,672	2,569,617
Accrued leave pay	9,700,432	7,814,709
Debtors with negative balances	3,066,517	9,195,063
Sundry creditors	15,939,805	10,821,516
Trade payables	118,029,073	80,341,498
	<b>149,928,499</b>	<b>110,742,403</b>

#### Fair value of trade and other payables

Trade payables	151,025,716	110,742,399
	<b>151,025,716</b>	<b>110,742,399</b>

The carrying amount of trade and other payables are denominated in the following currencies:

Rand	151,025,716	110,742,399
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### 18. Financial instruments disclosure

#### Categories of financial instruments

#### 2015

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	2,794,521	2,794,521
Consumer debtors	-	23,647,617	23,647,617
Cash and cash equivalents	2,152,367	-	2,152,367
VAT Receivable	-	24,725,118	24,725,118
Other receivables from non-exchange transactions	-	740,067	740,067
	<b>2,152,367</b>	<b>51,907,323</b>	<b>54,056,690</b>



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

**Figures in Rand** **2015** **2014**

### Financial instruments disclosure (continued)

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	1,809,551	1,809,551
Trade and other payables from exchange transactions	138,132,612	138,132,612
Consumer deposits	3,150,537	3,150,537
Unspent conditional grants and receipts	333,005	333,005
	<b>143,425,705</b>	<b>143,425,705</b>

#### 2014

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	2,167,707	2,167,707
Consumer debtors	-	18,498,601	18,498,601
Cash and cash equivalents	25,500,728	-	25,500,728
VAT Receivable	-	11,143,456	11,143,456
	<b>25,500,728</b>	<b>31,809,764</b>	<b>57,310,492</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	3,029,557	3,029,557
Trade and other payables from exchange transactions	100,358,077	100,358,077
Unspent conditional grants	4,927,440	4,927,440
	<b>108,315,074</b>	<b>108,315,074</b>

### 19. Consumer deposits

Electricity, water and zero consumption	3,150,537	3,054,632
	<b>3,150,537</b>	<b>3,054,632</b>

### 20. Revenue

Service charges	114,731,724	103,172,017
Agency services	9,177,261	7,589,135
Licences and permits	77,154	41,059
Rental income	968,442	528,131
Other income	18,697,207	13,270,075
Interest received	10,411,098	5,334,396
Dividends received	77,790	-
Property rates	31,383,161	20,107,868
Government grants & subsidies	223,564,615	218,755,451
Public contributions and donations	5,045,182	-
Fines, Penalties and Forfeits	4,469,644	4,033,691
Gains on disposal of assets	1,073	761,179
	<b>418,604,351</b>	<b>373,593,002</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>20. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	114,731,724	103,172,017
Agency services	9,177,261	7,589,135
Licences and permits	77,154	41,059
Rental income	968,442	528,131
Gains on disposal of assets	1,073	761,179
Other income	18,697,207	13,270,075
Interest received - investment	10,411,098	5,334,396
Dividends received	77,790	-
	<b>154,141,749</b>	<b>130,695,992</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

<b>Taxation revenue</b>		
Property rates	31,383,161	20,107,868
<b>Transfer revenue</b>		
Government grants & subsidies	223,564,615	218,755,451
Public contributions and donations	5,045,182	-
Fines, Penalties and Forfeits	4,469,644	4,033,691
	<b>264,462,602</b>	<b>242,897,010</b>

## 21. Property rates

### Rates received

Residential	16,225,626	8,803,969
Commercial	8,919,218	5,461,322
State	5,682,234	3,017,278
Small holdings and farms	7,277,200	3,805,298
Churches	228,347	156,191
Less: Income forgone	(6,949,464)	(1,136,190)
	<b>31,383,161</b>	<b>20,107,868</b>

### Valuations

Residential	2,381,424,700	1,425,509,800
Commercial	843,880,900	732,092,300
State	387,956,700	245,598,500
Municipal	427,757,267	104,907,379
Small holdings and farms	2,460,213,460	2,185,616,400
Vacant Land	43,516,500	71,183,500
Other	110,520,100	461,629,500
	<b>6,655,269,627</b>	<b>5,226,537,379</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation was implemented effective 1 July 2014.

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>22. Service charges</b>		
Sale of electricity	88,121,426	80,990,521
Sale of water	11,890,499	9,344,699
Sewerage and sanitation charges	6,945,306	5,742,279
Refuse removal	7,774,493	7,094,518
	<b>114,731,724</b>	<b>103,172,017</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	127,313,000	110,201,000
Municipal systems improvement grant	934,000	958,214
Finance management grant	1,600,000	1,805,806
Local government sector education and training authority	121,773	183,242
Expanded public works programme incentive grant	2,912,883	2,635,334
Integrated national electrification programme	4,306,635	9,342,430
	137,188,291	125,126,026
<b>Capital grants</b>		
Municipal infrastructure grant	86,376,324	93,629,425
	86,376,324	93,629,425
	<b>223,564,615</b>	<b>218,755,451</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	96,251,615	108,554,451
Unconditional grants received	127,313,000	110,201,000
	<b>223,564,615</b>	<b>218,755,451</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	3,611,324	31,614,749
Current-year receipts	82,765,000	65,626,000
Conditions met - transferred to revenue	(86,376,324)	(93,629,425)
	-	<b>3,611,324</b>

Conditions still to be met - remain liabilities (see note 15).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which is yet to be completed. The conditions of the projects are directly in-line with the DORA requirements. The Municipality has committed the unspent portion of the Grant to projects.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service by the year 2014 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

An amount of R83,192,619 (2014- R91,747,399) of the Municipal Infrastructure Grant was expended on Infrastructure capital projects and an amount of R3,183,704.88 (2014- R1,882,026) was used for the Procurement Management Unit (PMU) for administration costs.

### Municipal systems improvement grant (MSIG)

Balance unspent at beginning of year	-	68,214
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(958,214)
	-	-

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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#### 23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15).

The Municipal Systems Improvement Grant is a conditional Grant directed to selected Local Municipalities. The purpose of the Grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

An amount of R934,000.00 (2014- R958,214) of the Municipal Improvement System Grant was expended during the year.

#### Financial management grant (FMG)

Balance unspent at beginning of year	-	255,806
Current-year receipts	1,600,000	1,550,000
Conditions met - transferred to revenue	(1,600,000)	(1,805,806)
	-	-

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

An amount of R1,600,000 (2014 - R1,805,806) was used during the period.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>23. Government grants and subsidies (continued)</b>		
<b>Local government sector education and training authority</b>		
Balance unspent at beginning of year	301,663	329,827
Current-year receipts	153,114	155,078
Conditions met - transferred to revenue	(121,772)	(183,242)
	<b>333,005</b>	<b>301,663</b>

Conditions still to be met - remain liabilities (see note 15).

The Local Government, Water and Related Services SETA was established in terms of the Skills Development Act (1998). In terms of the provisions of the Act, the SETA was first established in 2000 and was recertified by the Minister of Labour in March 2005, with a reduced scope of coverage that excluded the Water Sector. It was at this stage renamed the The Local Government Sector Education & Training Authority (LGSETA). In 2011 responsibility for all SETAs was moved from the Department of Labour to the newly established Department of Higher Education and Training. The LGSETA was recertified by the Minister for the National Skills Development Strategy III period (2011-2016).

The LGSETA has aligned its contributions to the implementation of National Skills Development Strategy III (NSDS III) primarily to support the achievement of OUTCOME 9 of the Cabinet Programme of Action, which aims to improve the effectiveness and efficiency of skills development system within the local government sector. The strategic outcome of the SETA will therefore produce a skilled and capable local government workforce. Provide explanations of conditions still to be met and other relevant information.

An amount of R121,772 (2014 - R183,242) was expended during the year.

### Integrated national electrification programme

Balance unspent at beginning of year	1,006,570	449,000
Current-year receipts	3,300,000	9,900,000
Conditions met - transferred to revenue	(4,306,570)	(9,342,430)
	<b>-</b>	<b>1,006,570</b>

Conditions still to be met - remain liabilities (see note 15).

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Intergrated Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

Eskom and the municipalities had completed 220 000 connections as at January 2012. Eskom had 42 infrastructure projects funded mainly in kwaZulu-Natal and the Eastern Cape, while the municipalities had 45 projects funded. Eskom had been allocated R1.8 billion while the municipalities received R1.1 billion for 2012/13. Special interventions would be undertaken to tackle "island" formations in kwaZulu-Natal and there would be flagship interventions in Engcobo, Umsinga, Maluti-a-Phofung, Masibambisane Rural Development initiative and King Sabata Dalindyebo Municipality where infrastructure was severely lacking.

An amount of (R4,306,635 ( 2014 - R9342,430) was expended during the period.

### Expanded public works programme incentive grant

Balance unspent at beginning of year	7,883	689,217
Current-year receipts	2,905,000	1,954,000
Conditions met - transferred to revenue	(2,912,883)	(2,635,334)
	<b>-</b>	<b>7,883</b>

Conditions still to be met - remain liabilities (see note 15).

Incentive paid to to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>23. Government grants and subsidies (continued)</b>		
An amount of R2,912,883 (R2,635,334) was used during the period.		
<b>Changes in level of government grants</b>		
Based on the allocations set out in the Division of Revenue Act, (Act No2 of 2013), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
<b>24. Public contributions and donations</b>		
Gert Sibande District Municipality Project donation	5,045,182	-
Conditions still to be met - remain liabilities (see note 15)		
Provide explanations of conditions still to be met and other relevant information		
<b>25. Other income</b>		
Administration costs	20,089	23,370
Advertising	196,349	18,983
Building and clearance certificates	25,799	9,531
Cemetery fees	156,572	138,322
Commission income	174,623	124,375
Escourting fees	1,508,290	1,626,093
Miscellaneous income	(44,133)	382,812
Other revenue	1,830,194	4,338,417
Insurance payouts received	143,851	2,536,775
Photo copies	231,042	240,124
Sale of refuse bins	807	486
Sub-division of stands	28,489	36,505
Sundry income	1,101,690	167,798
Timber sales	13,323,545	3,626,484
	<b>18,697,207</b>	<b>13,270,075</b>

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>26. General expenses</b>		
Advertising	440,792	1,216,076
Auditors remuneration	4,735,539	2,309,480
Bank charges	999,278	1,041,552
Cleaning	2,349,947	3,781,663
Contracted services	24,207,164	25,749,531
Consumables	3,068,894	947,519
Entertainment	630,534	556,468
Insurance	5,040,696	3,028,833
Community development and training	258,714	447,017
Election expenses	970,205	-
Electricity	977,230	3,050,057
IT expenses	581,120	263,150
Motor vehicle expenses	135,100	162,305
Placement fees	9,213	8,266
Productions	44,618	-
Printing and stationery	3,177,144	2,099,129
Protective clothing	2,776,708	1,245,953
Research and development costs	50,828	25,828
Security	12,155,089	9,261,601
Staff welfare	5,400	-
Subscriptions and membership fees	1,522,515	244,191
Telephone and fax	2,607,886	2,851,992
Subsistence and travel	3,312,706	3,174,061
Training	1,581,446	1,098,942
Water	1,045,900	1,174,109
	<b>72,684,666</b>	<b>63,737,723</b>



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>27. Employee related costs</b>		
Basic	70,576,995	59,551,236
Bonus	6,002,046	5,445,697
Housing benefits and allowances	1,272,464	1,063,856
Long-service awards	98,615	71,460
Medical aid contributions	3,071,825	2,594,415
Overtime payments	7,688,208	6,695,256
Pension fund contributions	12,141,351	11,133,805
Standby	6,194,116	5,118,426
Shift allowance	372,466	232,908
Employee benefit plan	1,575,494	2,502,158
Travel allowance	2,907,610	2,578,107
Unemployment insurance fund contributions	631,302	588,886
	<b>112,532,492</b>	<b>97,576,210</b>

### Additional disclosures

Listed below is remuneration of senior managers. The remuneration of senior managers are included in employee costs disclosed above.

#### Remuneration of municipal manager

Annual Remuneration	634,325	606,480
Travel, motor car, accommodation, subsistence and other allowances	548,093	497,607
Contributions to UIF, Medical and Pension Funds	128,736	144,508
	<b>1,311,154</b>	<b>1,248,595</b>

The Mr. A.N. Mahlangu served for seven months to January 2015. Currently Mr J. Mabuza is the acting Municipal Manager from February 2015 to 30 June 2015.

#### Remuneration of Chief finance officer

Annual Remuneration	413,910	315,096
Gratuity	-	853,384
Leave gratuity	-	56,716
Travel, motor car, accommodation, subsistence and other allowances	460,393	145,728
Contributions to UIF, Medical and Pension Funds	93,829	145,728
	<b>968,132</b>	<b>1,516,652</b>

The Chief Financial Officer Mr T.S. Thobela served for the full period up to 30 June 2015.

#### General manager - Corporate services

Annual Remuneration	504,736	472,644
Travel, motor car, accommodation, subsistence and other allowances	294,285	274,761
Contributions to UIF, Medical and Pension Funds	137,376	133,076
	<b>936,397</b>	<b>880,481</b>

The General Manager for Corporate Services Mr. M.J. Mkhonza served for the full period up to 30 June 2015.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 27. Employee related costs (continued)

#### General manager - Technical services

Annual Remuneration	290,769	498,462
Car Allowance	180,223	344,814
Contributions to UIF, Medical and Pension Funds	57,353	115,461
	<b>528,345</b>	<b>958,737</b>

The General Manager for Technical Services Mr. J . Mabuza served for seven months and currently Mr Mambane is Acting GM - Technical services.

#### General manager - Community Services

Annual Remuneration	504,736	472,644
Car Allowance	286,658	343,366
Contributions to UIF, Medical and Pension Funds	150,159	145,728
	<b>941,553</b>	<b>961,738</b>

The General Manager for Community Services Mr. A.W. Nkonyane served for the full period up to 30 June 2015.

#### General Manager - Planning and Development

Annual Remuneration	293,880	-
Car Allowance	160,145	-
Contributions to UIF, Medical and Pension Funds	62,716	-
	<b>516,740</b>	<b>-</b>

The General Manager for Planning and Development Mr A.N Mahlangu served for 5 months from February to June 2015. Previously he was the Municipal Manager

### 28. Remuneration of councillors

Executive Major	740,925	748,987
Speaker	601,676	588,277
Councillors salaries	10,795,242	10,145,575
Councillors pension contribution	702,445	621,547
	<b>12,840,288</b>	<b>12,104,386</b>

#### Additional information

Please refer to note 40 for full detail packages of council members

### 29. Debt impairment

Contributions to debt impairment provision	25,074,935	19,646,494
	<b>25,074,935</b>	<b>19,646,494</b>

### 30. Fair value adjustments

Biological assets - (Fair value model)	(7,950,494)	19,832,658
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	1,066,722	2,684,316
	<b>(6,883,772)</b>	<b>22,516,974</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	70,046,052	71,900,041
Investment property	639,500	639,500
	<b>70,685,552</b>	<b>72,539,541</b>
<b>32. Impairment loss</b>		
<b>Impairments</b>		
Other receivables from non-exchange revenue	2,963,139	3,345,047
An amendment to IGRAP 1, require the Mkhondo Local Municipality to account for Traffic Fine Income on the accrual basis.		
The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.		
IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.		
Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.		
The municipality therefore accounted for each fine issued on the accrual basis, however the probability was assessed and it was found that the current year cash received from fines was less than 10% of fines issued. Therefore the receivable created was impaired.		
	<b>2,963,139</b>	<b>3,345,047</b>
<b>Total impairment losses reversed</b>	<b>2,963,139</b>	<b>3,345,047</b>
<b>33. Finance costs</b>		
Trade and other payables	6,961,372	3,415,406
Current borrowings	323,750	445,998
Other interest paid	242,944	206,282
	<b>7,528,066</b>	<b>4,067,686</b>
<b>34. Auditors' remuneration</b>		
Fees	4,735,539	2,309,480
	<b>4,735,539</b>	<b>2,309,480</b>
<b>35. Transfers and subsidies</b>		
<b>Other subsidies</b>		
Equitable share	3,567,092	1,240,635
Expanded Public Works Programme Incentive Grant	2,912,883	2,635,334
	<b>6,479,975</b>	<b>3,875,969</b>
<b>36. Bulk purchases</b>		
Electricity	80,811,493	75,425,417
Water	2,054,025	10,725,718
	<b>82,865,518</b>	<b>86,151,135</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>37. Net Cash flows from operating activities</b>		
Deficit	(13,386,515)	(1,104,902)
<b>Adjustments for:</b>		
Depreciation and amortisation	70,685,552	72,539,541
Sale of assets and liabilities	(1,073)	(761,179)
Inventory gains	(1,634,138)	(19,932)
Fair value adjustments	6,883,772	(22,516,974)
Impairment deficit	2,963,139	3,345,047
Debt impairment	25,074,935	19,646,494
Movements in provisions	5,181,143	4,983,592
Other non-cash items	-	9,134,338
<b>Changes in working capital:</b>		
Inventories	(4,177,621)	(2,676,237)
Receivables from exchange transactions	(3,961,936)	(3,594,349)
Consumer debtors	(30,223,951)	(22,931,539)
Payables from exchange transactions	36,309,232	62,474,424
VAT	(13,581,662)	(7,378,984)
Unspent conditional grants and receipts	(4,594,435)	(28,479,373)
Consumer deposits	95,905	108,512
	<b>75,632,347</b>	<b>82,768,479</b>

## 38. Commitments

### Authorised capital expenditure

#### Already contracted for but not provided for

• Property, plant and equipment	307,514,704	42,532,014
	<b>307,514,704</b>	<b>42,532,014</b>

#### Total capital commitments

Already contracted for but not provided for	307,514,704	42,532,014
	<b>307,514,704</b>	<b>42,532,014</b>

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

### Operating leases - as lessee (expense)

#### Minimum lease payments due

- within one year	4,354,788	300,869
- in second to fifth year inclusive	6,703,326	547,948
	<b>11,058,114</b>	<b>848,817</b>

Operating lease payments represent rentals payable by the municipality for certain of its office machines. Leases are negotiated for an average term of three years. No contingent rent is payable.

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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#### 39. Contingencies

The Municipality has the following Legal case pending which could result in possible outflow of economic resources.

No	Description/Citation of parties	Nature of details of case	Citation at court	Amount of dispute	Current status
1	Andries Wilhelmus Jacobs Vorsester vs Mkhondo Municipality	The Plaintiff is suing the Municipality for a once off gratuity equal to 3 months pensionable salary	367/2015 at Piet Retief Magistrates court	R25,000.00	Pending
2.	Lourens Peter De Beer vs Mkhondo Municipality	The Plaintiff is suing the Municipality for damages sustained on the Plaintiff's motor vehicle as a result of road and storm water drain in which the plaintiff was travelling on.	20751/15 before the high court of South Africa (Gauteng Division, Pretoria)	R470,000.00	Pending
3	Mkhondo Municipality vs Busamasi Investments	Plaintiff is suing for services rendered and retention money allegedly owed by the Municipality	47483/2008	R558,843.62	Pending
4	Mkhondo Municipality vs Pojoma Technologies	Plaintiff suing for alleged breach of contract	15597/11	R1,396,370.67	Pending
5	Mkhondo Municipality vs Urban Economic Development	Plaintiff suing for alleged breach of contract	4548/2012	R127,082.46	Pending
6	Mkhondo Municipality vs Bareki Management Consulting	Plaintiff suing for amount outstanding and breach of contract	19148/11	R1,169,904.48	Pending
7	Mkhondo Municipality vs Telkom SA	Plaintiff suing for alleged damages to telecommunication lines	74/2014	R15,386.73	Municipality lost the case in court and is considering an appeal
8	Mkhondo Municipality vs Owethu	Plaintiff is suing for alleged breach of contract	46047/2014	R21,277,570.63	Pending
9	Mkhondo Municipality vs Rethusenglive	The Plaintiff is suing complete work and services rendered	40779/14	R7,339,871.52	Pending
10	Mkhondo Municipality vs Yellow stone Timber	Plaintiff is suing for alleged electricity over charged	64697/14	R918,920.00	Municipality lost the case in court and an appeal is pending
11	Mkhondo Municipality vs Midway Tyres	Plaintiff is suing for alleged breach of contract	254/2015	R18,095.17	Defendant offered R9,198.77
12	Mkhondo Municipality vs LTE Consulting (Pty) Limited	A dispute between the Municipality and the claimant following their appointment as consulting engineers. The claimant demands that the Municipality pays for the services it received.	Attorneys not allocated yet	Not known	The matter is scheduled to be attended as soon as the Municipality finalises the appointment of attorneys.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 39. Contingencies (continued)

13	Mkhondo Municipality vs African Directory Services (Pty) Ltd	African Directory Services (Pvt) Ltd instituted a legal proceeding by way of a letter of demand to the Municipality after the Municipality failed to pay the said services whilst services were rendered by the service provider on instructions by the Municipality, the said letter of demand was served demanding an amount of R95,691.60	Attorneys not allocated yet	R95,691.60	The matter is likely to be settled out of court.
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### Contingencies as at 30 June 2014

1. The Municipality is being sued for R 21,277,570.63 by Olwethu Mkhondo Trading C. A notice was received from Sefalafala Attorneys on behalf of Olwethu Mkhondo Trading CC. The claim stems from an appointment letter that was issued to Olwethu Mkhondo Trading CC. The letter appoints the claimant under conditions still to be discussed. Claimant is demanding that work be apportioned to them otherwise they will approach the court for an order to that effect. Summonses were issued to the Municipality and were sent to the Municipality Attorneys.
2. The Municipality is being sued for an unknown amount as a result of a dispute between the Municipality and the Claimant following an alleged breach of contract by the municipality. Plaintiff is claiming damages suffered due to the alleged breach.
3. The Municipality is being sued for R 1,396,370.67 by Pamoja Technologies. Summonses were received from the sheriff's office. The claimant is demanding payment for an alleged breach of contract by the Municipality. The claimant alleges that they were appointed by the Municipality. A service level agreement was signed detailing the obligations of the parties. The Claimant avers that at the time the contract was terminated all amounts owing in terms of the contract to it became due and payable immediately.
4. The Municipality is being sued for R 26,000.00 by Busami Investments CC. A claim was instituted by the Plaintiff following an alleged breach of contract by the Municipality. Rule 35(1) (6) (8) & (10) was filed. A discovery affidavit is due as well. Parties are to meet for a pre-trial conference. The plaintiff's attorneys served a notice of withdrawal as attorneys of records. The plaintiff is silent of the way forward in this matter. SM; Legal Services attended a consultation with Senior Counsel, Adv. Ncongwanane in Pretoria. It was resolved in the consultation that the matter should be set down for trial to have an official closure of the court.
5. The Municipality is being sued for R 100,000.00 by Dr H. Van Blerk. The Municipality is sued for negligence for failing to maintain a manhole. The plaintiff fell in one of the municipal manhole and sustained injuries. Our attorneys of records advised that we settle the matter as we do not have evidence that our manhole was fully maintained. Attempts to get the responsible section to assist did not materialise. Our attorneys of records advised that the witnesses identified are hostile and can therefore not assist this case. A proposed settlement in the sum of R 90,000.00 has since been reached and now awaits the signature of the Plaintiff.
6. The Municipality is being sued for R 3,249,043.64 by Rethuseng Live Line Services CC. Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant. The plaintiff is claiming from the first defendant an amount of R 4 846 015.42 and alternatively R 3 249 043.64 from the second defendant. The matter was referred to our attorneys of records for advice and or litigation.
7. The Municipality is being sued for R 18,478.88 by Telkom SA SOC limited for damages and repair cost they incurred due to negligence on the part of the Municipality employees. The municipality received the summons late and on inquiries it turned out that judgement has been granted against it. Attorneys were then appointed to assist in defending the matter and also with the rescission application to reverse and or rescind the judgement given. The plaintiff's attorneys issued a writ of execution against property of the defendant following the judgement. The Municipality attorney of record lodged an urgent application to interdict the Sheriff from proceeding with the execution pending the outcome of the rescission application.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 39. Contingencies (continued)

8. The Municipality is being sued for R 27,139.07 by Telkom SA SOC Limited. The Municipality received a letter in line with the Institution of Legal Proceedings Against Certain Organs of State Act, No 40 of 2002. The plaintiff is claiming an amount of R 27,139.07 for damages and repairs they incurred as a result of the alleged negligence by municipal employees who happened to cut and damage cables belonging to the Plaintiff on the 10th of February 2014 whilst carrying out their duties. Internal investigations are in progress. The municipality has no records at this stage of any works that was carried out at the street in question. A different approach must be taken to ascertain which team worked at the above address on the date in question.
9. The Municipality is being sued for R 127,082.46 by Urban-econ for breach of contract.
- 10.. The Municipality is being sued for R 92,007.92 by Bareki Managment for services and googs delivered in a fire incident.
11. The Municipality is being sued for R 150,000.00 by Bareki Managment for breach of contract.

### 12. Employee Related Contingencies

**Mdluli TP:** The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.

**L Manamela:** The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.

**BD Matebula:** The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.

**Y Erasmus:** The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.

**BV Masima:** On suspension for gross dishonesty involving financial irregularity.

**QZ Mbata:** The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 40. Related parties

#### Relationships

Mr M.J.S. Mabuza(Acting Accounting Officer)	Refer to accounting officer's report note
Mr M.J. Mkhonza(Corporate Services)	Section 57 Manager
Mr A.N. Mahlangu (Planning and Development)	Section 57 Manager
Mr A. Mambane(Acting General Manager - Technical Services)	Section 57 Manager
Mr A.W. Nkonyane(Community Services)	Section 57 Manager
Mr S. Thobela(CFO)	Section 57 Manager
Employee related costs	Note 25 - Payments
National Treasury	State controlling entity
Development Bank of South Africa	

#### Councillors and their packages:

Please refer to note 29 for council packages in aggregate.

#### Councillors Salary Disclosure

##### Cllr. B.H Mtshali (Mayor)

Annual Remuneration	406,121	413,305
Cellphone allowance	20,868	31,928
Housing allowance	48,117	48,117
Contributions to Pension, Medical and skills	86,196	86,180
Travelling allowance	179,624	169,456
	<b>740,926</b>	<b>748,986</b>

##### Cllr. P.C. Langa (Speaker)

Annual Remuneration	334,357	328,940
Cellphone allowance	20,868	21,470
Housing allowance	46,905	46,905
Contributions to Pension, Medical and skills	52,571	52,463
Travelling allowance	146,975	138,499
	<b>601,676</b>	<b>588,277</b>

##### Cllr. V.D. Nkosi (MMC- Technical Services)

Annual Remuneration	291,759	297,465
Cellphone allowance	20,868	21,470
Housing allowance	48,096	48,096
Contributions to Pension, Medical and skills	66,151	66,321
Travelling allowance	187,595	164,166
	<b>614,469</b>	<b>597,518</b>

##### Cllr. Z.E Mthimkhulu (Chief Whip)

Annual Remuneration	291,854	291,806
Cellphone allowance	20,868	21,470
Housing allowance	48,096	48,096
Contributions to Pension, Medical and skills	66,963	61,341
Travelling allowance	199,457	153,069
	<b>627,238</b>	<b>575,782</b>

##### Cllr. N.C Ndhlovu

Annual Remuneration	351,438	334,428
Cellphone allowance	20,868	21,470
Housing allowance	-	28,056
Contributions to Pension, Medical and skills	54,963	51,324



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
Travelling allowance	168,502	149,473
	<b>595,771</b>	<b>584,751</b>
<b>Cllr. M.L. Yende</b>		
Annual Remuneration	173,528	125,749
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	26,381	44,537
Travelling allowance	80,560	60,804
	<b>308,936</b>	<b>259,557</b>
<b>Cllr. M.D. Ntuli</b>		
Annual Remuneration	173,528	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	26,385	21,139
Travelling allowance	79,777	64,346
	<b>308,157</b>	<b>246,753</b>
<b>Cllr. D.M. Twala</b>		
Annual Remuneration	150,587	123,524
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	49,536	44,457
Travelling allowance	73,014	57,037
	<b>301,604</b>	<b>253,485</b>
<b>Cllr. T.E. Khumalo</b>		
Annual Remuneration	199,866	144,912
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	2,837	2,096
Travelling allowance	70,282	52,834
	<b>301,452</b>	<b>228,309</b>
<b>Cllr. M.O. Nkosi</b>		
Annual Remuneration	173,528	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	26,400	21,139
Travelling allowance	70,433	51,968
	<b>298,828</b>	<b>234,375</b>
<b>Cllr. L.V. Mkwana</b>		
Annual Remuneration	161,696	144,912
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	2,358	2,096
Travelling allowance	60,763	55,509
	<b>253,284</b>	<b>230,984</b>
<b>Cllr. Z.J. Mnisi</b>		
Annual Remuneration	140,650	132,801
Cellphone allowance	20,868	20,868

# Mkhondo Local Municipality

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## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	22,212	21,139
Travelling allowance	57,504	51,584
	<b>248,833</b>	<b>233,991</b>
<b>Cllr. S.R. Sangweni</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,126	21,769
Travelling allowance	64,555	57,360
	<b>248,160</b>	<b>240,397</b>
<b>Cllr. M.E. Phakathi</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,131	21,139
Travelling allowance	61,183	54,385
	<b>244,793</b>	<b>236,792</b>
<b>Cllr. J.L. Brussow</b>		
Annual Remuneration	115,568	125,431
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	40,930	40,882
Travelling allowance	59,691	50,837
	<b>244,656</b>	<b>245,617</b>
<b>Cllr. T.S. Nkosi</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,126	21,139
Travelling allowance	58,717	57,720
	<b>242,322</b>	<b>240,127</b>
<b>Cllr. C.G. Mtshali</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,134	21,139
Travelling allowance	56,855	51,560
	<b>240,468</b>	<b>233,967</b>
<b>Cllr. N.B. Masuku</b>		
Annual Remuneration	154,062	144,912
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	2,256	2,096
Travelling allowance	55,009	53,022
	<b>239,794</b>	<b>228,497</b>
<b>Cllr. J.M. Phakathi</b>		

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
Annual Remuneration	134,012	144,912
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,107	2,096
Travelling allowance	55,751	52,926
	<b>239,337</b>	<b>228,401</b>
<b>Cllr. G.T. Nkosi</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,134	21,139
Travelling allowance	55,663	61,219
	<b>239,276</b>	<b>243,626</b>
<b>Cllr. S.P. Kunene</b>		
Annual Remuneration	138,737	135,303
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	16,505	16,245
Travelling allowance	55,336	52,471
	<b>239,045</b>	<b>232,486</b>
<b>Cllr. S.J. Mathula</b>		
Annual Remuneration	154,062	144,912
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	2,256	2,096
Travelling allowance	53,887	50,837
	<b>238,672</b>	<b>226,312</b>
<b>Cllr. H.A. Mncube</b>		
Annual Remuneration	154,062	144,912
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	2,256	2,096
Travelling allowance	53,887	51,560
	<b>238,672</b>	<b>227,035</b>
<b>Cllr. S.S. Mathebule</b>		
Annual Remuneration	134,310	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	20,840	21,139
Travelling allowance	54,993	55,819
	<b>238,610</b>	<b>238,226</b>
<b>Cllr. S.E. Nhleko</b>		
Annual Remuneration	134,012	75,446
Cellphone allowance	20,868	12,173
Housing allowance	7,599	4,432
Contributions to Pension, Medical and skills	21,134	12,394
Travelling allowance	54,959	29,655
	<b>238,572</b>	<b>134,100</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
<b>Cllr. A.T. Twala</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,127	21,139
Travelling allowance	54,959	51,968
	<b>238,565</b>	<b>234,375</b>
<b>Cllr. L Bosch</b>		
Annual Remuneration	134,310	102,559
Cellphone allowance	20,868	16,357
Housing allowance	7,599	5,700
Contributions to Pension, Medical and skills	20,840	19,017
Travelling allowance	54,686	38,329
	<b>238,303</b>	<b>181,962</b>
<b>Cllr. S.N. Kambule</b>		
Annual Remuneration	180,870	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	27,823	21,139
Travelling allowance	1,113	51,254
	<b>238,273</b>	<b>233,661</b>
<b>Cllr. K.D. Masondo</b>		
Annual Remuneration	163,585	141,260
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	45,056	39,327
Travelling allowance	1,140	36,471
	<b>238,248</b>	<b>245,525</b>
<b>Cllr. N.L. Nhlengetwa</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,134	21,139
Travelling allowance	54,564	51,682
	<b>238,177</b>	<b>234,089</b>
<b>Cllr. S.C. Mtshali</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,135	21,139
Travelling allowance	54,214	51,548
	<b>237,828</b>	<b>233,955</b>
<b>Cllr. B.J. Vilakazi</b>		
Annual Remuneration	134,310	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	20,841	21,139

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
Travelling allowance	53,887	56,186
	<b>237,505</b>	<b>238,593</b>
<b>Cllr. V.W. Masuku</b>		
Annual Remuneration	141,822	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	22,306	21,139
Travelling allowance	44,906	50,837
	<b>237,501</b>	<b>233,244</b>
<b>Cllr. T.G. Nhleko</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,135	21,139
Travelling allowance	53,887	50,837
	<b>237,501</b>	<b>233,244</b>
<b>Cllr. B.T. Mabuza</b>		
Annual Remuneration	134,012	132,801
Cellphone allowance	20,868	20,868
Housing allowance	7,599	7,599
Contributions to Pension, Medical and skills	21,135	21,139
Travelling allowance	53,887	51,584
	<b>237,501</b>	<b>233,991</b>
<b>Cllr. B.J. Tshabangu</b>		
Annual Remuneration	128,385	-
Cellphone allowance	17,390	-
Housing allowance	6,332	-
Contributions to Pension, Medical and skills	1,880	-
Travelling allowance	44,906	-
	<b>198,893</b>	<b>-</b>
<b>Cllr. C.F. Bios</b>		
Annual Remuneration	90,004	-
Cellphone allowance	13,912	-
Housing allowance	5,066	-
Contributions to Pension, Medical and skills	14,214	-
Travelling allowance	36,978	-
	<b>160,174</b>	<b>-</b>
<b>Cllr. T.S. Mafuyeka</b>		
Annual Remuneration	78,465	-
Cellphone allowance	12,173	-
Housing allowance	4,432	-
Contributions to Pension, Medical and skills	12,173	-
Travelling allowance	32,197	-
	<b>139,440</b>	<b>-</b>
<b>Cllr. P.S. Nhlabathi</b>		
Annual Remuneration	31,503	132,801
Cellphone allowance	5,217	20,868

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
Housing allowance	1,900	7,599
Contributions to Pension, Medical and skills	5,216	21,139
Travelling allowance	12,709	60,060
	<b>56,545</b>	<b>242,467</b>
<b>Cllr. T.E. Motha</b>		
Annual Remuneration	21,002	132,801
Cellphone allowance	3,478	20,868
Housing allowance	1,266	7,599
Contributions to Pension, Medical and skills	3,486	21,139
Travelling allowance	12,604	54,118
	<b>41,836</b>	<b>236,525</b>
<b>Cllr. H.C. Du Toit</b>		
Annual Remuneration	2,315	47,504
Cellphone allowance	870	6,956
Housing allowance	317	2,533
Contributions to Pension, Medical and skills	52	706
Travelling allowance	2,118	16,946
	<b>5,672</b>	<b>74,645</b>
<b>Cllr. R.J.A. Wilson</b>		
Annual Remuneration	-	80,291
Cellphone allowance	-	12,173
Housing allowance	-	4,432
Contributions to Pension, Medical and skills	-	32,554
Travelling allowance	-	29,655
	<b>-</b>	<b>159,105</b>
<b>Cllr. H.P. Sunkel</b>		
Annual Remuneration	-	20,469
Cellphone allowance	-	2,066
Housing allowance	-	1,900
Contributions to Pension, Medical and skills	-	3,576
Travelling allowance	-	12,104
	<b>-</b>	<b>40,115</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>40. Related parties (continued)</b>		
<b>Related party balances</b>		
<b>Loan accounts - Owing to related parties</b>		
National Treasury	-	(4,625,777)
Development Bank of South Africa	(1,809,551)	(3,029,557)
Local government sector Education and training authority	(333,005)	(301,663)
<b>Amounts included in trade receivable regarding related parties</b>		
Councilors	84,734	158,287

The amounts owing to National treasury are unsecured, upon the rollover process the amount owing was ring-fenced through investment accounts.

### Key management information

Executive Mayor	Cllr. B.H. Mtshali
Councillors	Please refer to the general information page
Municipal Managers	Mr M.J.S. Mabuza

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 41. Risk management

#### Financial risk management

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. This comprises three types of risks, which is currency risk, interest rate risk and other prices risk.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

Potential concentrations of credit risk and interest rate risk consist mainly of fixed deposit investments, long term debtors, consumer debtors, other debtors, short term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures by from its money market investments operations by only dealing with well established financial institutions of high quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits, which are included in the municipality's investment policy. These limits are reviewed annually by the CFO and authorised by the Executive Mayoral Committee.

Consumer deposits comprise of a large number of rate payers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due date are cut immediately.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market.

Liquidity risk is the risk that the municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the municipality are backed by appropriate assets and it has adequate liquid resources. The council monitors the cash projections and by ensuring that borrowing facilities are availed to meet its cash requirements.

The maximum credit and interest rate risk exposure in respect of relevant financial instruments is as follows:

Description of type of financial instrument		
Receivables from Exchange transactions	26,049,065	20,641,318
Cash and cash equivalents	2,152,367	25,500,728
	<b>28,201,432</b>	<b>46,142,046</b>

### 42. Going concern

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 43. Unauthorised expenditure

Opening balance	144,322,830	132,167,884
Unauthorised expenditure	90,537,983	12,154,946
Unauthorised expenditure - identified in current year relating to prior year	116,666,607	-
	<b>351,527,420</b>	<b>144,322,830</b>

The unauthorised expenditure is as a result of certain departments overspending on their allocation.

Included in the unauthorised expenditure reported are non cash items amounting to R70,685,552 (2014 - R72,539,541) which is depreciation budgeted for under a different vote from the vote under which the expenditure was incurred.



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
<b>43. Unauthorised expenditure (continued)</b>		
Expenditure to the amount of R144,322,830 relating to prior years are currently under investigation by MPAC.		
<b>44. Fruitless and wasteful expenditure</b>		
Opening balance	17,981,233	9,110,749
Penalties, interest and other	7,019,464	8,870,484
Debt collection	92,009	-
Less: Amount written off	-	-
	<b>25,092,706</b>	<b>17,981,233</b>

The following fruitless and wasteful expenditure occurred during the year:

<b>Supplier</b>		
South African Revenue Services	-	91,669
Eskom	6,942,605	3,319,385
Debt collection	-	5,455,079
Auditor General South Africa	10,831	4,352
Telkom	3,747	-
MCPF	4,162	-
Excelsior Druker	8,573	-
Media 24	17,300	-
Basadzi Personnel	32,246	-
Zandile Management Services	92,009	-
	<b>7,111,473</b>	<b>8,870,485</b>

Expenditure to the amount of R17,981,233 relating to prior years are currently under investigation by MPACt

### 45. Irregular expenditure

Opening balance	69,121,066	20,562,367
Add: Irregular Expenditure - current year	65,274,637	48,558,699
Less: Amounts written off	-	-
	<b>134,395,703</b>	<b>69,121,066</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	65,274,637	48,558,699
Prior years	69,121,066	20,562,367
	<b>134,395,703</b>	<b>69,121,066</b>

Expenditure to the amount of R69,121,066 relating to prior years are currently under investigation by MPAC.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 46. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses

##### 2014

Electricity losses for the current year amounted to 31% i.e. R 27 252 134.25. These losses comprise of technical and non-technical losses. Technical losses are losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 84% i.e. R 717 116.67.

##### 2015

Electricity losses for the current year amounted to 36% i.e. R29,213,404. These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 83% i.e. R 1,696,592.88. 56% of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

#### Audit fees

Current year subscription / fee	4,735,539	2,308,870
Amount paid - current year	(2,959,624)	(2,313,222)
	<b>1,775,915</b>	<b>(4,352)</b>

#### PAYE and UIF

Current year subscription / fee	13,811,504	12,377,538
Amount paid - current year	(12,643,700)	(11,426,409)
	<b>1,167,804</b>	<b>951,129</b>

#### Pension and Medical Aid Deductions

Current year subscription / fee	25,022,027	20,371,513
Amount paid - current year	(22,831,563)	(18,289,980)
	<b>2,190,464</b>	<b>2,081,533</b>

#### VAT

VAT receivable	24,725,118	11,143,456
	<b>24,725,118</b>	<b>11,143,456</b>

All VAT returns have been submitted by the due date throughout the period.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Total outstanding R	Total
Cllr. P.C. Langa	223	223
Cllr. V.D. Nkosi	2,118	2,118
Cllr. Z.E. Mthimkhulu	374	374
Cllr. J.S. Methula	289	289
Cllr. S.R. Sangweni	6,111	6,111
Cllr. L.V.A. Mkhwanazi	19,576	19,576
Cllr. Z. Mnisi	8,960	8,960
Cllr. M.O. Nkosi	3,037	3,037
Cllr. S. E. Nleko	1,647	1,647
Cllr. J.L.I. Brussow	29,178	29,178
Cllr. L. Bosch	5,836	5,836
Cllr. H.A. Mncube	7,385	7,385
	<b>84,734</b>	<b>84,734</b>

30 June 2014	Total outstanding R	Total
Cllr. B.H. Mtshali (Mayor)	1,336	1,336
Cllr. V.D. Nkosi (MMC Technical)	2,153	2,153
Cllr. Z.E. Mthimkhulu (Chief Whip)	235	235
Cllr. C. Mtshali	166	166
Cllr. R.J.A. Wilson	2,672	2,672
Cllr. D.M. Thwala	7,700	7,700
Cllr. J.S. Methula	47	47
Cllr. S.S. Mathebula	804	804
Cllr. T.S. Nkosi	6,744	6,744
Cllr. M.D. Ntuli	1,831	1,831
Cllr. M.E. Phakathi	2,728	2,728
Cllr. S.P. Kunene	2,814	2,814
Cllr. S.R. Sangweni	3,833	3,833
Cllr. N.B. Masuku	3,098	3,098
Cllr. L.V.A. Mkhwanazi	8,280	8,280
Cllr. Z. Mnisi	5,691	5,691
Cllr. M.O. Nkosi	2,428	2,428
Cllr. H.P. Sunkel	1,931	1,931
Cllr. T.E. Motha	8,228	8,228
Cllr. J.L.I. Brussow	32,382	32,382
Cllr. J.M. Phakathi	1,752	1,752
	<b>96,853</b>	<b>96,853</b>

The Councillors' arrear accounts are in respect of services rendered by the Municipality to the Councillors in the normal course of business. The services were rendered on terms and conditions within the normal operating parameters established by the Municipality. The Arrear accounts are unsecured, and are subject to the normal credit policy as applied to every other Consumer debtor.

### 47. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus budgeted expenditure.

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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#### 48. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E(2) for the comparison of actual capital expenditure versus budgeted expenditure.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014	
<b>49. Prior Period Errors</b>			
<b>Statement of Financial Position</b>	<b>2014 Restated</b>	<b>2014 Reported</b>	<b>Difference Reason</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	25,500,728	25,500,728	-
Consumer debtors	18,498,601	18,498,601	-
Inventory	5,194,856	5,194,856	-
Receivables from exchange	2,167,707	2,142,717	24,990 Remapping from sundry creditors
VAT	11,143,456	11,143,456	-
Total current assets	62,505,348	62,480,358	24,990
<b>Non-current assets</b>			
Biological assets	78,745,390	78,745,390	-
Investment properties	18,949,100	18,949,100	-
Property, plant and equipment	1,204,542,365	1,204,556,699	(14,334) Error - Depreciation on a project which was completed in December 2013 and was not provided for in the reported financial statements.
Other financial assets	16,251,926	16,251,926	-
Total non-current assets	1,318,488,781	1,318,503,115	(14,334)
Total Assets	1,380,994,129	1,380,983,473	10,656
<b>Liabilities</b>			
<b>Current liabilities</b>			
Consumer deposits	3,054,632	3,054,632	-
Other financial liabilities	1,160,914	1,160,914	-
Provisions	242,944	242,944	-
Employee Benefit Obligations	1,296,969	-	1,296,969 Reclassification
Payables from exchange transactions	110,717,409	101,643,283	9,099,120 Error - An amount of R9,074,130 relates to ESKOM accrual which was omitted from the reported accruals provided for. An amount of R24,990 relates to sundry debtors remapped from sundry creditors to sundry debtors.
Unspent conditional grants	4,927,440	4,927,440	-
Total current liabilities	121,425,302	111,029,213	10,396,089
<b>Non-current liabilities</b>			
Other financial liabilities	1,868,643	1,868,643	-
Employee benefit obligation	17,910,457	19,207,426	(1,296,969) Reclassification
Provisions	11,231,167	11,231,167	-
Total non-current liabilities	31,010,267	32,307,236	(1,296,969)

## Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

### Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand			2015	2014
Total liabilities	152,435,569	143,336,449	9,099,120	
Net Assets	1,228,558,560	1,237,647,024	(9,088,464)	
Accumulated Surplus	1,228,558,560	1,237,647,024	(9,088,464)	

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014	
49. Prior period errors continued			
<b>Statement of Financial Performance</b>			
<b>Revenue</b>	<b>2014 Restated</b>	<b>2014 Reported</b>	<b>Difference Reason</b>
<b>Revenue from exchange transactions</b>			
Service charges	103,172,017	103,172,017	-
Income from service fees	7,589,135	7,290,663	298,472 Error - Income from Agency fees mistated in the reported financial statements.
Licenses and permits	41,059	41,059	-
Rental income	528,131	528,131	-
Other income	13,270,075	13,426,266	(156,191) Remaping property votes which were previously reported under other income
Interest received	5,334,396	5,334,396	-
Gains on disposal of assets	761,179	761,179	-
Total revenue from exchange transactions	130,852,183	130,553,711	142,281
<b>Revenue from non-exchange transactions</b>			
Property rates	20,107,868	19,951,677	156,191 Remapping property votes previously reported under other income
Government grants and subsidies	218,755,451	218,755,451	-
Fines	4,033,691	4,033,691	-
Total revenue from non-exchange transactions	242,740,819	242,740,819	156,191
Total revenue	373,593,002	373,294,530	298,472
<b>Expenditure</b>			
Personnel	(97,576,210)	(97,763,984)	187,744 Error - Correction of a mistatement.
Remuneration to councillors	(12,104,386)	(12,104,386)	-
Depreciation	(72,539,541)	(72,525,208)	(14,333) Error - Depreciation on a project which was completed in December 2013 and was not provided in the reported financial statements.
Impairment loss	(3,345,047)	(3,345,047)	-
Finance costs	(4,067,686)	(4,067,686)	-
Debt impairment	(19,646,494)	(19,646,494)	-
Lease rentals on operating lease	(810,724)	-	(810,724) Reclassification from General expenses now reported as a line item.

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand			2015	2014
Repairs and maintenance	(33,379,895)	(24,389,114)	(8,990,781)	An amount of R8,970,848 remapped from general expenses to Repairs and maintenance. An amount of R19,933 is reclassification of inventory gains now reported seperately.
Bulk purchases	(86,151,135)	(76,580,730)	(9,570,405)	Error - Additional ESKOM invoices not initially provided for.
Grants and subsidies	(3,875,969)	(3,875,969)	-	
General expenses	(63,737,723)	(73,529,328)	9,791,605	An amount of R8,970,849 was remapped from general expenses to repairs and maintenance and R810,724 is reclassification of lease rentals from general expenses to lease rentals which is now reported seperately.
Total expenditure	(397,234,810)	(387,827,946)	(9,406,865)	
Operating deficit	(23,641,808)	(14,533,416)	(9,108,392)	
Fair value adjustments	22,516,974	22,516,974	-	
Inventory gains	19,932	-	19,932	Reclassification - Reclassification of inventory gains now reported seperately
Deficit for the year	(1,104,902)	7,983,558	(9,088,460)	



# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014	
49. Prior period errors continued			
<b>Cash flow statement</b>	<b>2014 Restated</b>	<b>2014 Reported</b>	<b>Difference Reason</b>
<b>Receipts</b>			
Property taxation	19,951,676	15,774,465	4,177,211 Computation error
Sale of goods and services	97,705,451	117,722,017	(20,016,566) Computation error
Grants	190,276,078	194,820,769	4,544,691 Computation error
Interest income	2,514,374	5,334,396	(2,820,022) Computation error
	310,447,579	333,651,647	(23,204,068)
<b>Payments</b>			
Employee costs	(106,474,095)	(108,316,198)	1,842,103 Computation error
Suppliers	(117,137,319)	(138,499,284)	21,361,965 Computation error
Finance costs	(4,067,686)	(4,067,686)	-
	(227,679,100)	(250,883,168)	23,204,068
Net cash flow from operations	82,768,479	82,768,479	-
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	(98,092,348)	(98,092,348)	-
Proceeds from sale of property, plant and equipment	1,157,610	1,157,610	-
Proceeds from sale of financial assets	6,747,146	6,747,146	-
	(90,187,592)	(90,187,592)	-
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities	(1,203,580)	(1,203,580)	-
	(1,203,580)	(1,203,580)	-
Net decrease in cash and cash equivalents	(8,622,693)	(8,622,693)	-
Cash and cash equivalents at the beginning of the year	34,123,421	34,123,421	-
Cash and cash equivalents at the end of the year	25,500,728	25,500,728	-
<b>Related Parties</b>			
<b>Councillors and their packages</b>			
Cllr. S.R. Sangweni	240,397	353,757	(113,360) Recorded incorrectly
S.J. Nkosi	-	159,549	(159,549) He is an employee and not a councillor. Listed incorrectly.
Cllr. S.E. Nhleko	134,100	148,976	(14,876) Recorded incorrectly. Wrong amount captured.
Cllr. S.N. Kambuke	-	143,758	(143,758) Duplicated in 2014.
Cllr. N.L. Nhlengethwa	-	234,088	(234,088) Duplicated in 2014.
	374,497	1,040,128	(665,631)
<b>COMMITMENTS</b>			
Property, plant and equipment	42,532,014	26,400,159	16,131,855 Computation errors

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the audited annual financial statements.

A register of deviations are kept at the Municipal Manager's office and is available for inspection.

The following deviations occurred during the financial year:

Deviations as at 30 June 2015	Service description	Amount
<b>Service Provider</b>		
Stucky Motors	Service and repairs of vehicles	17,038
Mphumalanga Community, Safety, Security and Liaison	Face value forms Z579	18,763
PW Mouton	CYX972MP Transport to Ermelo with lowbed	7,000
Ngalane Investments	Water Tankering Services	90,000
Subaru Nelspruit	Service and repairs	16,047
Manus Nissan	Service for vehicle	3,269
Rolf's towing	Towing of Subaru to Nelspruit	6,000
Khanyis media	Advert - ICT items	6,020
Dhlamzak Mining & Construction	Emergency Storm Water drainage	337,015
Pricewaterhousecoopers	Team mate software	95,272
Excelsior printers	Tender advert	8,573
G&Y Training institute	Crime prevention Training	7,980
Elwazini Conferencing	IDP and PMS Workshop	27,357
The South African Planning Institute	Planning Africa Conference	6,100
Institute for Internal Auditors	Registration fees for internal auditors	4,959
WPI	Supply and repairs of MV switchgear and panels	502,701
Excelsior Printers	Advert - Public notice	3,990
De Wit motors	Service and repairs of vehicles	11,682
Sowetan	Tender advert	12,038
Dawson and Dobson (Pty) Ltd	Supply of SPP RKB Pump	158,735
Basadzi Personnel	Advert: GM Planning	41,909
SAGE VIP	Supply of payslips	13,354
Excelsior Printers	Advert- Public notice	3,819
Excelsior Printers	Advert - mayoral message	3,819
Excelsior Printer	Advert- ElAdvert- Local Economic Development	3,990
Times Media	Advert- Security tender	12,038
Excelsior Printers	Advert- Target Group clerk, Junior Internal Auditor	13,908
Media 24	Tender advert	21,625
Excelsior Printers	Revenue receipt books	7,752
Khanyisa Media	Advert: Water Quality results	12,000
Excelsior Printers	Water and Sanitation logbooks	12,688
Piet Retief Armature Winders	Rewind and Fit Submerssible pump	71,017
Khanyisa Media	Spluma Advert	2,720
Khanyisa Media	Advert: SM Revenue	5,472
Mphumalanga Community, Safety, Security and Liaison	Face Value Forms Z579	9,381
<b>Total</b>		<b>1,576,031</b>

# Mkhondo Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2015

## Notes to the Unaudited Annual Financial Statements for the year ended 30 June 2015

Figures in Rand	2015	2014
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### 51. Budget differences

#### Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report

# Mkhondo Local Municipality

## Appendix B

June 2015

### Analysis of property, plant and equipment as at 30 June 2015

Cost/Revaluation						Accumulated depreciation						
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	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land	41,050,371	-	-	-	-	-	41,050,371	-	-	-	-	-	-	41,050,371
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	31,921,152	-	-	-	-	-	31,921,152	(11,950,572)	-	-	(653,784)	-	(12,604,356)	19,316,796
	<b>72,971,523</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,971,523</b>	<b>(11,950,572)</b>	<b>-</b>	<b>-</b>	<b>(653,784)</b>	<b>-</b>	<b>(12,604,356)</b>	<b>60,367,167</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	1,124,670,684	-	-	6,367,461	-	-	1,131,038,145	(497,913,709)	-	-	(41,833,469)	-	(539,747,178)	591,290,967
Storm water	51,495,876	-	-	-	-	-	51,495,876	(30,145,383)	-	-	(1,249,566)	-	(31,394,949)	20,100,927
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	460,233,575	-	-	-	-	-	460,233,575	(259,711,495)	-	-	(11,136,054)	-	(270,847,549)	189,386,026
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	183,850,676	5,045,182	-	28,613,867	-	-	217,509,725	(93,320,932)	-	-	(4,957,666)	-	(98,278,598)	119,231,127
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	216,295,125	-	-	16,688,111	-	-	232,983,236	(114,621,902)	-	-	(4,245,373)	-	(118,867,275)	114,115,961
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastrucutr)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>2,036,545,936</b>	<b>5,045,182</b>	<b>-</b>	<b>51,669,439</b>	<b>-</b>	<b>-</b>	<b>2,093,260,557</b>	<b>(995,713,421)</b>	<b>-</b>	<b>-</b>	<b>(63,422,128)</b>	<b>-</b>	<b>1,059,135,549</b>	<b>1,034,125,008</b>
<b>Community Assets</b>														
Parks & gardens	2,724,500	-	-	-	-	-	2,724,500	(1,198,780)	-	-	(54,490)	-	(1,253,270)	1,471,230
Sportsfields and stadium	2,807,000	-	-	-	-	-	2,807,000	(1,235,080)	-	-	(56,140)	-	(1,291,220)	1,515,780
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	7,780,000	-	-	-	-	-	7,780,000	(5,103,200)	-	-	(95,600)	-	(5,198,800)	2,581,200
Libraries	1,560,000	-	-	-	-	-	1,560,000	(622,400)	-	-	(31,200)	-	(653,600)	906,400
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	1,933,390	-	-	-	-	-	1,933,390	(224,623)	-	-	(38,746)	-	(263,369)	1,670,021
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	293,000	-	-	17,332,308	-	-	17,625,308	(128,920)	-	-	(5,860)	-	(134,780)	17,490,528
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>17,097,890</b>	<b>-</b>	<b>-</b>	<b>17,332,308</b>	<b>-</b>	<b>-</b>	<b>34,430,198</b>	<b>(8,513,003)</b>	<b>-</b>	<b>-</b>	<b>(282,036)</b>	<b>-</b>	<b>(8,795,039)</b>	<b>25,635,159</b>

# Mkhondo Local Municipality

## Appendix B

June 2015

### Analysis of property, plant and equipment as at 30 June 2015

#### Cost/Revaluation

#### Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Other assets</b>														
General vehicles	23,284,177	1,634,641	-	-	-	-	24,918,818	(13,422,914)	-	-	(2,685,031)	-	(16,107,945)	8,810,873
Plant & equipment	13,067,491	127,440	-	-	-	-	13,194,931	(9,589,719)	-	-	(1,071,617)	-	(10,661,336)	2,533,595
Computer Equipment	3,470,380	626,909	(6,200)	-	-	-	4,091,089	(2,208,377)	1,206	-	(759,034)	-	(2,966,205)	1,124,884
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	4,499,606	1,304,340	-	-	-	-	5,803,946	(3,160,094)	-	-	(779,570)	-	(3,939,664)	1,864,282
Office Equipment	1,986,901	72,248	-	-	-	-	2,059,149	(742,317)	-	-	(391,822)	-	(1,134,139)	925,010
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	76,918,877	88,754,967	-	(69,001,746)	-	-	96,672,098	-	-	-	-	-	-	96,672,098
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>123,227,432</b>	<b>92,520,545</b>	<b>(6,200)</b>	<b>(69,001,746)</b>	<b>-</b>	<b>-</b>	<b>146,740,031</b>	<b>(29,123,421)</b>	<b>1,206</b>	<b>-</b>	<b>(5,687,074)</b>	<b>-</b>	<b>(34,809,289)</b>	<b>111,930,742</b>

# Mkhondo Local Municipality

## Appendix B

June 2015

### Analysis of property, plant and equipment as at 30 June 2015

Cost/Revaluation	Accumulated depreciation
------------------	--------------------------

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	72,971,523	-	-	-	-	-	72,971,523	(11,950,572)	-	-	(653,784)	-	(12,604,356)	60,367,167
Infrastructure	2,036,545,936	5,045,182	-	51,669,439	-	-	2,093,260,557	(995,713,421)	-	-	(63,422,128)	-	1,059,135,549	1,034,125,008
Community Assets	17,097,890	-	-	17,332,308	-	-	34,430,198	(8,513,003)	-	-	(282,036)	-	(8,795,039)	25,635,159
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	123,227,432	92,520,545	(6,200)	(69,001,746)	-	-	146,740,031	(29,123,421)	1,206	-	(5,687,074)	-	(34,809,289)	111,930,742
	<b>2,249,842,781</b>	<b>97,565,727</b>	<b>(6,200)</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>2,347,402,309</b>	<b>1,045,300,417</b>	<b>1,206</b>	<b>-</b>	<b>(70,045,022)</b>	<b>-</b>	<b>1,115,344,233</b>	<b>1,232,058,076</b>
<b>Agricultural/Biological assets</b>														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	78,745,390	-	-	-	(7,950,494)	-	70,794,896	-	-	-	-	-	-	70,794,896
	<b>78,745,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,950,494)</b>	<b>-</b>	<b>70,794,896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,794,896</b>
<b>Investment properties</b>														
Investment property	32,464,300	-	-	-	-	-	32,464,300	(13,515,200)	-	-	(639,500)	-	(14,154,700)	18,309,600
	<b>32,464,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,464,300</b>	<b>(13,515,200)</b>	<b>-</b>	<b>-</b>	<b>(639,500)</b>	<b>-</b>	<b>(14,154,700)</b>	<b>18,309,600</b>
<b>Total</b>														
Land and buildings	72,971,523	-	-	-	-	-	72,971,523	(11,950,572)	-	-	(653,784)	-	(12,604,356)	60,367,167
Infrastructure	2,036,545,936	5,045,182	-	51,669,439	-	-	2,093,260,557	(995,713,421)	-	-	(63,422,128)	-	1,059,135,549	1,034,125,008
Community Assets	17,097,890	-	-	17,332,308	-	-	34,430,198	(8,513,003)	-	-	(282,036)	-	(8,795,039)	25,635,159
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	123,227,432	92,520,545	(6,200)	(69,001,746)	-	-	146,740,031	(29,123,421)	1,206	-	(5,687,074)	-	(34,809,289)	111,930,742
Agricultural/Biological assets	78,745,390	-	-	-	(7,950,494)	-	70,794,896	-	-	-	-	-	-	70,794,896
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment properties	32,464,300	-	-	-	-	-	32,464,300	(13,515,200)	-	-	(639,500)	-	(14,154,700)	18,309,600
	<b>2,361,052,471</b>	<b>97,565,727</b>	<b>(6,200)</b>	<b>1</b>	<b>(7,950,494)</b>	<b>-</b>	<b>2,450,661,505</b>	<b>1,058,815,617</b>	<b>1,206</b>	<b>-</b>	<b>(70,684,522)</b>	<b>-</b>	<b>1,129,498,933</b>	<b>1,321,162,572</b>

# Mkhondo Local Municipality

## Appendix D

June 2015

### Segmental Statement of Financial Performance for the year ended Prior Year Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
<b>Municipality</b>						
229,627,403	144,963,897	84,663,506	Executive & Council/Mayor and Council	210,477,025	147,510,160	62,966,865
22,946,376	34,904,359	(11,957,983)	Finance & Admin/Finance	41,097,137	37,091,043	4,006,094
403,357	8,411,745	(8,008,388)	Planning and Development/Economic Development/Plan	1,438,096	16,163,266	(14,725,170)
-	972,417	(972,417)	Health/Clinics	-	990,368	(990,368)
237,528	2,299,125	(2,061,597)	Comm. & Social/Libraries and archives	366,962	2,725,701	(2,358,739)
188,560	100,884	87,676	Housing	331,790	87,134	244,656
5,511,533	17,099,965	(11,588,432)	Public Safety/Police	5,659,286	18,934,467	(13,275,181)
22,268	5,954,613	(5,932,345)	Sport and Recreation	20,616	6,818,871	(6,798,255)
12,855,303	24,112,918	(11,257,615)	Waste Water Management/Sewerage	14,745,749	31,357,549	(16,611,800)
7,630,194	11,747,654	(4,117,460)	Road Transport/Roads	9,254,415	10,125,109	(870,694)
13,781,998	37,556,947	(23,774,949)	Water/Water Distribution	16,805,718	32,662,484	(15,856,766)
99,298,906	94,884,593	4,414,313	Electricity /Electricity Distribution	99,834,377	99,841,774	(7,397)
3,626,484	14,225,697	(10,599,213)	Other/Air Transport	13,323,545	22,419,126	(9,095,581)
<b>396,129,910</b>	<b>397,234,814</b>	<b>(1,104,904)</b>		<b>413,354,716</b>	<b>426,727,052</b>	<b>(13,372,336)</b>
396,129,910	397,234,814	(1,104,904)	Municipality	413,354,716	426,727,052	(13,372,336)
<b>396,129,910</b>	<b>397,234,814</b>	<b>(1,104,904)</b>	<b>Total</b>	<b>413,354,716</b>	<b>426,727,052</b>	<b>(13,372,336)</b>

# Mkhondo Local Municipality

## Appendix E(1)

June 2015

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

	Current year 2015 Act. Bal. Rand	Current year 2015 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Service charges	114,731,723	117,863,338	(3,131,615)	(2.7)	Immaterial
Agency services	9,177,261	6,199,876	2,977,385	48.0	Projected income under-budgeted
Licences and permits	77,154	32,910	44,244	134.4	Projected income under-budgeted
Rental income	968,442	1,116,610	(148,168)	(13.3)	Projected income over-budgeted
Other income - (rollup)	18,697,207	28,879,955	(10,182,748)	(35.3)	Projected income over budgeted on the assumption that more revenue would be realised from pine sales which was not the case.
Interest received - investment	10,411,097	7,738,134	2,672,963	34.5	More interest was realised from consumer debtors than projected.
Dividends received	77,790	-	77,790	-	
	154,140,674	161,830,823	(7,690,149)	(4.8)	
<b>Other income</b>					
<b>Expenses</b>					
Personnel	(112,532,496)	(100,809,156)	(11,723,340)	11.6	The variance arose mainly from provisions like leave pay, Long Service awards and post employment benefits which were not budgeted for.
Remuneration of councillors	(12,840,289)	(12,692,364)	(147,925)	1.2	Not a significant variance
Depreciation	(70,685,553)	(67,766,691)	(2,918,862)	4.3	Immaterial. Variance less than 10%.
Impairments	(2,963,139)	-	(2,963,139)	-	
Finance costs	(7,528,066)	(728,644)	(6,799,422)	933.2	Variance arose from interest charged by vendors on over due accounts
Bad debts written off	(25,074,935)	(16,358,613)	(8,716,322)	53.3	Under-budgeted. The budgeting process did not take into account the growth in debtors.
Repairs and maintenance - General	(31,409,334)	(18,442,294)	(12,967,040)	70.3	Variance less than 10% hence immaterial.
Bulk purchases	(82,865,518)	(82,287,370)	(578,148)	0.7	Insignificant variance.
Transfers and Subsidies	(6,479,975)	(4,592,520)	(1,887,455)	41.1	More consumers accessed the subsidies than projected.
General Expenses	(74,361,932)	(93,752,232)	19,390,300	(20.7)	Under spending on votes due to budgetary monitoring by departments.
	(426,741,237)	(397,429,884)	(29,311,353)	7.4	
<b>Other revenue and costs</b>					
Gain or loss on disposal of assets and liabilities	1,073	-	1,073	-	
Fair value adjustments	(6,883,772)	-	(6,883,772)	-	Not Budgeted for
	(6,882,699)	-	(6,882,699)	-	
Net surplus/ (deficit) for the year	(279,483,262)	(235,599,061)	(43,884,201)	18.6	



**Mkhondo Local Municipality**  
**Appendix G3**  
**Budgeted Financial Performance (revenue and expenditure)**  
**for the year ended 30 June 2015**

	2015/2014							2014/2013							
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget Rand	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand		Rand	Rand	Rand	Rand	Rand	Rand
Revenue By Source															
Property rates	29,672,000	8,405,314	38,077,314	-		38,077,314	31,383,162		(6,694,152)	82 %	106 %				20,107,868
Property rates - penalties & collection charges	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - electricity revenue	93,339,000	(2,716,776)	90,622,224	-		90,622,224	88,121,426		(2,500,798)	97 %	94 %				80,990,521
Service charges - water revenue	15,073,000	(4,543,692)	10,529,308	-		10,529,308	11,890,499		1,361,191	113 %	79 %				9,344,699
Service charges - sanitation revenue	10,778,000	(1,073,000)	9,705,000	(851,693)		8,853,307	6,945,306		(1,908,001)	78 %	64 %				5,742,279
Service charges - refuse revenue	7,600,000	258,307	7,858,307	-		7,858,307	7,774,493		(83,814)	99 %	102 %				7,094,518
Service charges - other	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Rental of facilities and equipment	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Interest earned - external investments	2,800,000	(1,417,658)	1,382,342	-		1,382,342	1,343,117		(39,225)	97 %	48 %				2,514,374
Interest earned - outstanding debtors	9,000,000	(2,644,208)	6,355,792	-		6,355,792	9,067,981		2,712,189	143 %	101 %				2,820,022
Dividends received	-	-	-	-		-	77,790		77,790	DIV/0 %	DIV/0 %				-
Fines	1,310,000	33,200	1,343,200	-		1,343,200	4,469,644		3,126,444	333 %	341 %				4,033,691
Licences and permits	99,000	(53,000)	46,000	(13,090)		32,910	77,154		44,244	234 %	78 %				41,059
Agency services	8,631,000	(2,285,000)	6,346,000	(146,124)		6,199,876	9,177,261		2,977,385	148 %	106 %				7,589,135
Transfers recognised - operational	132,752,000	150,000	132,902,000	(9,949,504)		122,952,496	137,188,290		14,235,794	112 %	103 %				125,126,026
Other revenue	27,767,000	(2,946,000)	24,821,000	5,381,040		30,202,040	12,986,667		(17,215,373)	43 %	47 %				36,411,182
Gains on disposal of PPE	72,000	-	72,000	-		72,000	1,073		(70,927)	1 %	1 %				761,179
Total Revenue (excluding capital transfers and contributions)	338,893,000	(8,832,513)	330,060,487	(5,579,371)		324,481,116	320,503,863		(3,977,253)	99 %	95 %				302,576,553

**Mkhondo Local Municipality**  
**Appendix G3**  
**Budgeted Financial Performance (revenue and expenditure)**  
**for the year ended 30 June 2015**

2015/2014										2014/2013				
Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Employee related costs	99,805,000	(4,019,000)	95,786,000	5,023,156	-	100,809,156	110,898,358	-	10,089,202	110 %	111 %	-	-	97,556,279
Remuneration of councillors	9,900,000	826,000	10,726,000	1,966,364	-	12,692,364	12,840,289	-	147,925	101 %	130 %	-	-	12,104,387
Debt impairment	16,358,613	-	16,358,613	-	-	16,358,613	28,038,074	-	11,679,461	171 %	171 %	-	-	22,991,541
Depreciation & asset impairment	73,058,000	-	73,058,000	(5,291,309)	-	67,766,691	70,685,553	-	2,918,862	104 %	97 %	-	-	72,539,542
Finance charges	929,000	(200,356)	728,644	-	-	728,644	7,528,066	-	6,799,422	1,033 %	810 %	-	-	4,067,685
Bulk purchases	80,924,000	1,450,000	82,374,000	(86,630)	-	82,287,370	82,865,518	-	578,148	101 %	102 %	-	-	86,151,135
Other materials	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Contracted services	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Transfers and grants	6,937,520	-	6,937,520	-	-	6,937,520	6,479,975	-	(457,545)	93 %	93 %	-	-	3,875,970
Other expenditure	124,288,020	(9,738,000)	114,550,020	(2,355,494)	-	112,194,526	105,771,266	-	(6,423,260)	94 %	85 %	-	-	97,928,343
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
<b>Total Expenditure</b>	<b>412,200,153</b>	<b>(11,681,356)</b>	<b>400,518,797</b>	<b>4,547,396</b>	<b>(5,291,309)</b>	<b>399,774,884</b>	<b>425,107,099</b>	<b>-</b>	<b>25,332,215</b>	<b>106 %</b>	<b>103 %</b>	<b>-</b>	<b>-</b>	<b>397,214,882</b>
<b>Surplus/(Deficit)</b>	<b>(73,307,153)</b>	<b>2,848,843</b>	<b>(70,458,310)</b>	<b>(10,126,767)</b>	<b>5,291,309</b>	<b>(75,293,768)</b>	<b>(104,603,236)</b>	<b>-</b>	<b>(29,309,468)</b>	<b>139 %</b>	<b>143 %</b>	<b>-</b>	<b>-</b>	<b>(94,638,329)</b>
Transfers recognised - capital	77,765,000	13,611,000	91,376,000	-	-	91,376,000	86,376,324	-	(4,999,676)	95 %	111 %	-	-	93,629,425
Contributions recognised - capital	-	-	-	-	-	-	5,045,182	-	5,045,182	DIV/0 %	DIV/0 %	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>4,457,847</b>	<b>16,459,843</b>	<b>20,917,690</b>	<b>(10,126,767)</b>	<b>-</b>	<b>10,790,923</b>	<b>(13,181,730)</b>	<b>-</b>	<b>(23,972,653)</b>	<b>(122)%</b>	<b>(296)%</b>	<b>-</b>	<b>-</b>	<b>(1,008,904)</b>
Taxation	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
<b>Surplus/(Deficit) after taxation</b>	<b>4,457,847</b>	<b>16,459,843</b>	<b>20,917,690</b>	<b>(10,126,767)</b>	<b>-</b>	<b>10,790,923</b>	<b>(13,181,730)</b>	<b>-</b>	<b>(23,972,653)</b>	<b>(122)%</b>	<b>(296)%</b>	<b>-</b>	<b>-</b>	<b>(1,008,904)</b>
Attributable to minorities	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
<b>Surplus/(Deficit) attributable to municipality</b>	<b>4,457,847</b>	<b>16,459,843</b>	<b>20,917,690</b>	<b>(10,126,767)</b>	<b>-</b>	<b>10,790,923</b>	<b>(13,181,730)</b>	<b>-</b>	<b>(23,972,653)</b>	<b>(122)%</b>	<b>(296)%</b>	<b>-</b>	<b>-</b>	<b>(1,008,904)</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>4,457,847</b>	<b>16,459,843</b>	<b>20,917,690</b>	<b>(10,126,767)</b>	<b>-</b>	<b>10,790,923</b>	<b>(13,181,730)</b>	<b>-</b>	<b>(23,972,653)</b>	<b>(122)%</b>	<b>(296)%</b>	<b>-</b>	<b>-</b>	<b>(1,008,904)</b>